

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012

Prepared by:
Robert J. Due
Finance Director

CITY OF COVINGTON, KENTUCKY

Comprehensive Annual Financial Report

Year Ended June 30, 2012

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal	1/5
Certificate of Achievement	6
Organizational Chart	7
List of Principal Officials	8

FINANCIAL SECTION

Report of Independent Accountants	10/11
Management's Discussion and Analysis (MD&A)	12/21

Basic Financial Statements

Government-wide Financial Statements	
Statement of Net Assets	23
Statement of Activities	24
Fund Financial Statements	
Balance Sheet - Governmental Funds	25
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds to the Statement of Activities	28
Statement of Net Assets - Proprietary Funds	29
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	30
Statement of Cash Flows - Proprietary Funds	31
Statement of Fiduciary Net Assets - Fiduciary Funds	32
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	33
Notes to the Basic Financial Statements	34/56

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	58/60
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Community Development Block Grant	61
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - HOME Program	62
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Housing Voucher Program	63

Other Supplementary Information

Combining Financial Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Non-Major Governmental Funds	66/67
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds	68/69

City of Covington, Kentucky
Comprehensive Annual Financial Report
For the Year Ended June 30, 2012
Table of Contents

Individual Fund Schedules - Non-Major Governmental Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Police and Fire Incentive	71
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Devou Park Maintenance	72
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Devou Park Master Plan	73
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Federal and State Grant Fund	74
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Police Forfeiture	75
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - CAD System	76
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Renaissance Grant Fund	77
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Home Consortium Fund	78
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Homeless Prevention Fund	79
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Neighborhood Stabilization Program	80
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - 2004 Pension Obligation Bonds	81
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - 2005 Refunding Bonds	82

Combining Financial Statements - Proprietary Funds

Combining Statement of Net Assets - Internal Service Funds	84
Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets - Internal Service Funds	85
Combining Statement of Cash Flows - Internal Service Funds	86

Individual Fund Schedules - Proprietary Funds

Schedule of Revenues, Expenditures and Changes in Fund Net Assets - Budget and Actual - Liability Insurance	88
Schedule of Revenues, Expenditures and Changes in Fund Net Assets - Budget and Actual - Medical and Dental Insurance	89

City of Covington, Kentucky
Comprehensive Annual Financial Report
For the Year Ended June 30, 2012
Table of Contents

STATISTICAL SECTION

Statistical Section Narrative and Contents	91
Net Assets by Component	92
Changes in Net Assets	93/94
Fund Balances, Governmental Funds	95
Changes in Fund Balances, Governmental Funds	96/97
Occupational License Fees - Payroll Withholding	98
Principal Occupational Payroll Tax Payers	99
Assessed Value and Estimated Actual Value of Taxable Property	100
Direct and Overlapping Property Tax Rates	101
Direct and Overlapping Governmental Activities Debt	102
Principal Property Tax Payers	103
Property Tax Levies and Collections	104
Ratio of Outstanding Debt by Type	105
Ratio of General Bonded Debt Outstanding	106
Legal Debt Margin Information	107
Demographic and Economic Statistics	108
Principal Employers	109
Full-time Equivalent City Government Employees by Function/Program	110
Operating Indicators by Function/Program	111
Capital Assets Statistics by Function/Program	112

SINGLE AUDIT SECTION

Schedule of Expenditures of Federal Awards	114
Notes to Schedule of Expenditures of Federal Awards	115/116
Report of Independent Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	117/118
Report of Independent Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	119/120
Schedule of Findings and Questioned Costs	121/122
Schedule of Prior Year Audit Findings	123

INTRODUCTORY SECTION



CITY OF COVINGTON

Office of the City Manager

Administration OFFICE OF THE CITY MANAGER
Code
Enforcement December 31, 2012
Community
Development
Finance To the Mayor, City Commissioners and Citizens of the City of Covington, Kentucky:
Fire
Human Resources Formal Transmittal of the Comprehensive Annual Annual Report (CAFR)
Legal
Neighborhoods, State law requires that all general-purpose local governments publish within six months of the
Parks and close of each fiscal year a complete set of financial statements presented in conformity with
Recreation generally accepted accounting principles (GAAP) in accordance with the implementation of
Police Government Standards Board (GASB) Statement 34, and audited in accordance with
Public generally accepted auditing standards by an independent firm of licensed certified public
Improvements accountants. Pursuant to that requirement, we hereby issue the comprehensive annual
Section 8 Housing financial report of the City of Covington for the fiscal year ended June 30, 2012.
Choice Voucher

This report consists of management's representations concerning the finances of the City of Covington. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Covington has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Covington's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Covington's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and fairly presents the financial position and results of the operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included in this report.

The City of Covington's financial statements have been audited by Decosimo, Certified Public Accountants, a firm of licensed certified public accountants with a local office in Cincinnati, Ohio. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Covington for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Covington's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Covington was a part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the City of Covington's Single Audit report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Covington's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Covington, founded in 1815, is located in the northern most part of the state, situated in Kenton County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City of Covington currently occupies a land area of 13.1 square miles and serves an estimated population of 40,640 based on the 2010 U.S. Census. The City of Covington is empowered to levy numerous taxes and fees. Its major revenue sources include an occupational license tax levied on gross wages and net profits of businesses, an insurance premiums tax and a property tax on both real and personal properties.

The City of Covington operates under the City Manager form of government. Legislative authority is vested in the City Board of Commissioners, consisting of the Mayor and four City Commission members. The Board of Commissioners is responsible for among other tasks, passing ordinances, adopting the budget, appointing members to various boards, and it approves the hiring of all full time employees. The City Manager reports directly to the Board of Commissioners and is responsible for carrying out policies and ordinances of the City Board of Commissioners and is responsible for the development of short and long range planning, capital improvement programs, and running the day-to-day operations of the City. The City Board of Commissioners is elected on a non-partisan basis. The Mayor serves a four year term and the City Commissioners serve two year terms. The next election for the Board of Commissioners will be held in November of 2014 and for the Mayor in November of 2016. The new Mayor and City Commission win take office on January 1, 2013. The election for the new Mayor and City Commissioners took place in November of 2012

The City of Covington provides a full range of services including a full time professional police service and full time professional: fire service; advanced life support emergency services; street maintenance and improvement; waste collection services; a full range of recreational areas and activities; cultural events; planning and zoning; housing rehabilitation and development; and public nuisance and zoning code enforcement. In addition to these activities, the governing body is responsible for funding the Employees' Retirement Fund and the Police and Firemen's Retirement Funds.

The annual budget serves as the foundation for the City of Covington's financial planning and control. Budget targets are set for each city department based on current revenue estimates contained in the five year plan adjusted for current trends. All departments of the City of Covington are required to submit budget requests for appropriation to the City Manager. The budget requests must be within budget targets. The City Manager uses these requests as the starting point for developing a proposed balanced budget. The City Manager then presents the

proposed balanced budget to the City Commissioners for review. A structurally balanced budget is required by State law and the Kentucky Constitution. The final budget is adopted prior to July 1 of each year. The appropriated budget is prepared by fund and department (e.g., police). Department heads may make transfers of appropriations within a department with the approval of the City Manager, or his designee. The City Manager cannot make transfers of appropriations between funds without the approval of the City Commissioners. Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions to the budget that would alter total revenues and total expenditures of any fund must be approved by the City Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 62-64 as part of the basic financial statements for the governmental funds. For governmental funds with appropriated annual budgets other than the general fund, this comparison is presented in the governmental fund subsection of this report, which starts on page 65. Also included in the governmental fund subsection are project-length budget-to-actual comparisons for each governmental fund for which a project-length budget has been adopted (i.e., the capital projects funds).

Information Useful in Assessing the Economic Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment within which the City of Covington operates.

Local Economy: The City of Covington has maintained its efforts in developing economic resources in the Greater Cincinnati/Northern Kentucky region. The consistent and persistent effort put forth by Covington's elected and appointed officials and other community leaders over the past twenty years has positioned the City for economic growth in the foreseeable future. According to the 2013 Regional Economic Outlook published by the Northern Kentucky Chamber of Commerce, the recovery has been painfully slow. "Both 2011 and 2012 have been marked by slow growth, stubborn unemployment, a slow recovery in the housing market." Employment growth and a reduction in the unemployment rate is still the most important issue facing the economy over the coming years. The local Chamber of Commerce's Economic Advisory Committee consensus forecast predicts continued slow recovery and a slight drop in the unemployment rate from 7.5% to 7.2%.

The City is heavily reliant on economically sensitive revenue. Occupational license fees (payroll tax and net profit taxes) represent 54.7% of all General Fund Revenue. Detailed information can be found in the Management Discussion & Analysis in the Financial Section of this report.

With the reality of little if no growth in economically sensitive revenue and a potential \$20 million shortfall over the next five years, the City planned and implemented a financial recovery plan which began in fiscal year 2013. The plan included the successful negotiation of three collective bargaining agreements with major changes in health care plan design that require greater employee participation in cost sharing, and requiring spouses of employees who are employed and eligible for health insurance coverage with their employer to leave the City's plan and enroll with their respective employers' plans. The agreements will extend through the end of calendar year 2015. Resultant savings will eliminate one half of the \$20 million five year shortfall. The City also relinquished 911 Emergency Dispatch Services to Kenton County. The savings will exceed \$1 million per year. The City will also reduce its payroll tax withholding rate from 2.5% to 2.45% of gross wages effective January 1, 2013, as an inducement to retain and recruit businesses and employers and make the City more competitive with Cincinnati, Louisville, and Lexington. The City's payroll tax rate has remained unchanged since its adoption in 1966.

The final element of the financial recovery plan was a comprehensive review of City operations with an eye toward streamlining processes and taking advantage of the technology available to reduce costs. Full Time Equivalent positions have fallen from 376 in fiscal year 2011 to less than 340 in fiscal year 2013. The impact of this financial recovery plan will not be reflected until the fiscal year 2013 Comprehensive Annual Financial Report.

A new emphasis on reinvestment in infrastructure and economic development have not only stabilized the City's financial status but provided resources to replenish depleted fund balances, jump start reinvestment in infrastructure, and economic development efforts. Two major development projects have recently been announced. A Covington-based business and real-estate investment company, partnering with a proven hotel developer, announced plans to develop a \$25 million destination luxury boutique hotel in a building that now serves as Covington City Hall. The 102 year old building that was formerly a department store will be transformed into a 107 room luxury hotel with a signature restaurant and bar. The hotel's design will blend the historical and architectural uniqueness of the structure with modern-day amenities of a luxury hotel. The project will attract new development, investment, businesses, and visitors to the downtown business district. The same developer has also acquired other properties in close proximity to the hotel project to optimize the impact of their primary investment.

Gateway Community & Technical College (GCTCS), a state funded institution of higher education, plans an ambitious \$81.5 million urban campus. In November of 2012, GCTCS announced the acquisition of more than a half dozen properties in the City's central business district to complement their existing campus and to provide the physical space for their planned expansion of a distributed urban campus in the City's urban core.

Two existing businesses expanded during fiscal year 2012. Plaza Recovery and Tier One both received state and local incentives to remain and grow new jobs in Covington. Plaza Recovery is a new entity but its predecessor, ACB American, has a record of jobs expansion in the City. Plaza Recovery, a debt recovery business with a national clientele, will add 250 new jobs. Tier One, an existing information technology company with a national clientele, opted to remain in Covington and continue its growth in the training and education software development industry.

Life science and technology based industries have been targeted in the City's economic development strategy. Bexion Pharmaceutical, a life science start-up, is also expanding and adding new jobs as well as providing space for other life science start-ups. Covington Latin School completed a \$9.9 million expansion which completely transformed the 87 year old school. The 41,000 square foot addition includes three college level science classrooms/labs, a technology center, a new cafeteria, and dedicated space for physical education and multi-purpose use. The majority of students come from outside the City of Covington. The City was pleased with the school's commitment to the community and the decision to stay in the City urban core. The expansion is featured on the cover of this Comprehensive Annual Financial Report.

Financial Policies and Planning

This report has been prepared in compliance with the requirements of Government Accounting Standards Board (GASB) No. 54. The goal of GASB 54 is to report governmental fund balances based on a hierarchy that shows from the highest to the lowest, the level or form of constraints on fund balances and, accordingly, the extent to which governments are bound to honor those constraints. GASB No. 54 also clarified the definition of a Special Revenue Fund. A Special Revenue Fund should not be reported unless one or more specific restricted or committed revenues are the foundation.

Awards and Acknowledgements


The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the nineteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

The preparation of this comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Department of Finance. Each member has our sincere appreciation for the contributions made in the preparation of this report. We also acknowledge the efforts of other departments who provided information that helped to make the report far more than a presentation of numbers, with a special thanks to Decosimo & Company. Credit must also be given to the Mayor and Commissioners for their unfailing interest, support, and integrity in directing the City's financial operations.

Respectfully submitted,



Larry Klein
City Manager



Robert J. Due
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Covington
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



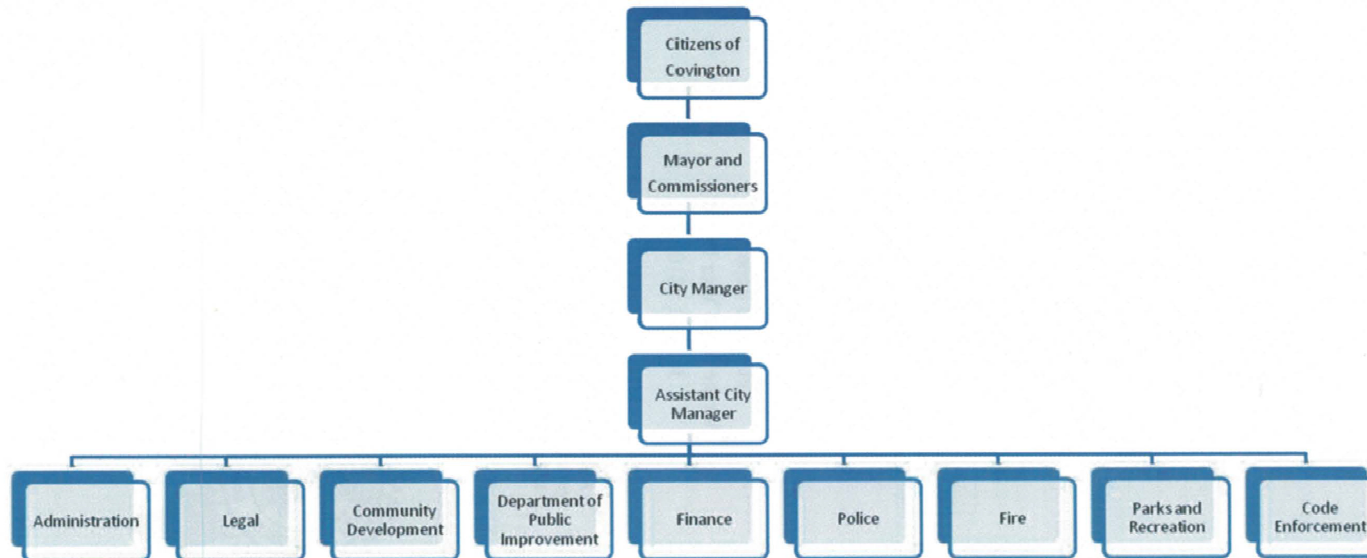
Linda C. Davidson

President

Jeffrey R. Egan

Executive Director

CITY OF COVINGTON, KENTUCKY
ORGANIZATIONAL CHART



CITY OF COVINGTON, KENTUCKY

LIST OF PRINCIPAL OFFICIALS

June 30, 2012

MAYOR

Chuck Scheper

COMMISSIONERS

Sherry Carran

Shawn Masters

Steve Casper

Steve Frank

STAFF

City Manager - Larry Klein

Assistant City Manager - Larisa Sims

City Solicitor - Frank Warnock

City Clerk - Maggie Nyhan

Finance Director - Robert J. Due

Chief of Police - Lee Russo

Fire Chief - Chuck Norris

Director of Public Improvements/City Engineer - Tom Logan

Community Development Director - Jackson Kinney

Director of Code Enforcement - Keith Bales

Recreation Director - Natalie Gardner

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FINANCIAL SECTION

REPORT OF INDEPENDENT ACCOUNTANTS

To the Mayor and Council
Board of Commissioners
City of Covington, Kentucky

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund balance information of the City of Covington, Kentucky (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Devou Properties, Inc. (a non-profit organization), the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Devou Properties, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Devou Properties, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of June 30, 2012, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

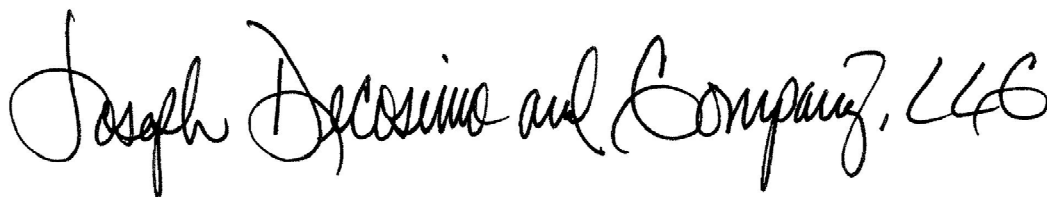
As described in Note 2 to the financial statements, the City's net asset balances as of June 30, 2011, have been adjusted to correct errors in classification. Our opinion is not modified with respect to that matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 12 through 21 and 58 through 63, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Joseph Decosimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
December 31, 2012

CITY OF COVINGTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) of the City of Covington, Kentucky's (the City's) financial statements provides readers an overview and analysis of the City's financial position and activities for the fiscal year ended June 30, 2012. The information presented here should be read in conjunction with the City's basic financial statements which immediately follow this analysis.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 23 and 24) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 25. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

This report was published under the standards for governmental financial reporting prescribed by the Governmental Accounting Standards Board in their Statement No. 34 (GASB 34). The GASB 34 model is designed to provide improved information through the elimination of fund transfers and the use of consolidated statements. This model is found in the government-wide financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$46,206,205 (net assets), and represent a decrease of \$(1,738,480) from the prior year. This amount includes \$34,173,497 that is invested in capital assets net of related debt and an unrestricted deficit balance of \$(4,806,437). The remaining net assets of \$190,681 and \$16,648,464 are restricted for Capital Projects and HUD Programs, respectively.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,292,864, a change of \$(1,902,263) from the previous year. Following GASB Statement Number 54, the total combined fund balance is \$3,292,864 and consists of \$98,617 as nonspendable, \$1,765,575 as restricted, \$385,496 as committed and \$1,043,176 as unassigned.

Government-Wide Financial Statements

Government-Wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements utilize the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual accounting means the financial statements recognize revenue when it is earned and expense when it is incurred regardless of when the cash is actually received or paid.

The Statement of Net Assets presents information on all City assets and liabilities as of June 30, 2012. Net assets are the difference between the assets and liabilities. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. In assessing the City's condition, other factors must be considered as well, such as changes in the City's property tax base, occupational license tax base, and the condition of the City's capital assets (roads, buildings, equipment, and sidewalks) to assess the overall health of the City.

CITY OF COVINGTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The Statement of Activities presents the City's annual revenues and expenses as well as any other transactions that increase or decrease net assets. Program revenues are offset by program expenses in order to provide net program costs that are financed by general government revenues.

The government-wide statements divide the City functions into two kinds of activities:

- **Governmental activities:** Most of the City's basic services are reported here, including police, fire, street maintenance, parks and recreation, and general administration services. Payroll occupational license fees, property taxes, and net profit license fees, and insurance premiums license tax, and service charges finance most of these activities.
- **Component Unit:** Devou Properties Inc. was formed to maintain and operate the Drees Pavilion at Devou Memorial Overlook for the benefit of Devou Park which is owned by the City. Although a legally separate entity, Devou Properties is included in these financial statements because of its financial accountability to the City.

Fund Financial Statements

Fund financial statements report the City's operations in more detail than the government-wide statements. The analysis of the City's major funds begins on page 58. The non-major fund financial statements begin on page 66. Some funds are required to be established by State law or by bond covenants. However, the City Commission may establish many other funds to help control and manage money for particular purposes (i.e., Police Forfeiture Fund, Devou Park Maintenance Fund, Devou Park Master Plan Fund, etc.) or to show that it is meeting legal responsibilities for grant funds (i.e. Community Development Block Grant Fund, Housing Voucher Fund, HOME Program Fund, etc.). The City reports financial activity under three kinds of funds: governmental, proprietary and fiduciary.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation (Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets (page 26) and the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds to the Statement of Activities (page 28)) attached to the fund financial statements. The City considers the General Fund, Community Development Block Grant Fund, HOME Program Fund and Housing Voucher Program to be major governmental funds.

Proprietary funds: When the City charges customers for the full cost of the services it provides whether to outside customers or to other units of the City, these services are reported in proprietary funds. The subcategories of the funds include enterprise funds, which are business-type activities and internal service funds, which report services provided to internal units of government. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City has no enterprise funds and reports two internal service funds, the Liability Self Insurance Fund and the Medical and Dental Self Insurance Fund.

CITY OF COVINGTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Covington's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City is trustee, or fiduciary for two retirement funds. The Police and Firemen's Pension Fund is a closed pension that is held solely for trust beneficiaries. The Employees' Retirement fund has two active employee members and is also held solely for trust beneficiaries.

Statement of Net Assets

For the year ended June 30, 2012, net assets changed as follows:

	Governmental Activities 2012	Governmental Activities 2011	Increase (Decrease) from 2011
Current and other assets	\$ 29,528,713	\$ 30,702,886	\$ (1,174,173)
Capital assets	56,255,259	57,755,623	(1,500,364)
Other non-current assets	<u>4,143,087</u>	<u>6,198,385</u>	<u>(2,055,298)</u>
Total assets	<u>89,927,059</u>	<u>94,656,894</u>	<u>(4,729,835)</u>
Current liabilities	11,802,988	11,123,949	679,039
Non-current liabilities	<u>31,917,866</u>	<u>35,588,260</u>	<u>(3,670,394)</u>
Total liabilities	<u>43,720,854</u>	<u>46,712,209</u>	<u>(2,991,355)</u>
Net Assets:			
Invested in capital assets, net of debt	34,173,497	36,088,303	(1,914,806)
Restricted for capital projects	190,681	1,577,223	(1,386,542)
Restricted for HUD Programs	16,648,464	15,837,661	810,803
Restricted for police	-	3,321	(3,321)
Restricted for grants	-	24,040	(24,040)
Unrestricted	<u>(4,806,437)</u>	<u>(5,585,863)</u>	<u>779,426</u>
Total net assets	<u>\$ 46,206,205</u>	<u>\$ 47,944,685</u>	<u>\$ (1,738,480)</u>

The total assets of the City on June 30, 2012, were \$89,927,059, while total liabilities were \$43,720,854, resulting in net assets of \$46,206,205. The largest component of the City's net assets, \$34,173,497, or 73.9%, reflects its investment in capital assets. Specific restrictions of net assets have been captured in the 2012 Statement of Net Assets.

As more fully disclosed in Note 2 to the financial statements, Net Assets as of June 30, 2011, have been adjusted for misclassifications. Restricted for HUD Programs net assets were increased by \$14,519,093 and unrestricted net assets were decreased by \$14,519,093. Total net assets did not change but the components of the June 30, 2011, net assets were modified. U.S. Department of Housing & Urban Development (HUD) funded activities previously had been reflected as unrestricted net assets rather than as restricted net assets.

The underlying restricted assets consist of notes issued from HUD funds for first time homebuyer down payment assistance and home rehabilitation loans. Other notes have also been issued by City for economic development purposes to create jobs. As of June 30, 2012, notes receivable on the Statement of Net Assets are \$16,843,635 of which \$14,901,780 are HUD funded. Management's analysis determined that since repayment of the notes by regulation must be reported to HUD and used for HUD purposes, that the resources, when recognized on the Statement of Net Assets, should be restricted rather than classified as unrestricted, resulting in the correction to the opening June 30, 2011, Net Assets.

CITY OF COVINGTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The total decrease in net assets of \$1,738,480 is reflective of the City's plan to first structurally balance the budget and stabilize the financial position before implementing plans to reinvest in infrastructure. In that sense, fiscal year 2012 will serve as the spring board for capital investment and economic growth in the future. After a number of years of declining capital investment, fiscal years 2012 and 2011, marked initial steps in addressing the long term infrastructure needs of the City.

Statement of Activities

	Governmental Activities 2012	Governmental Activities 2011	Increase (Decrease) from 2011
Revenues:			
Program revenues:			
Charges for services	\$ 6,669,237	\$ 6,091,457	\$ 577,780
Operating grants and contributions	12,518,909	13,533,951	(1,015,042)
Capital grants	1,647,156	2,558,805	(911,649)
General revenues:			
Taxes	40,538,696	40,174,583	364,113
Interest	23,084	47,503	(24,419)
Other	2,286,030	1,817,908	468,122
Total revenues	<u>63,683,112</u>	<u>64,224,207</u>	<u>(541,095)</u>
EXPENSES			
General government	4,250,735	3,814,055	436,680
Police	16,455,964	16,536,402	(80,438)
Fire	15,180,999	15,318,421	(137,422)
Public improvements	11,349,786	11,780,808	(431,022)
Recreation	711,584	734,672	(23,088)
Community development	15,379,018	13,771,124	1,607,894
Parking garage	768,661	865,947	(97,286)
Interest on long-term debt	1,324,845	1,676,776	(351,931)
Total expenses	<u>65,421,592</u>	<u>64,498,205</u>	<u>923,387</u>
Change in net assets	(1,738,480)	(273,998)	(1,464,482)
Net assets - June 30, 2011	<u>47,944,685</u>	<u>48,218,683</u>	<u>(273,998)</u>
Net assets - June 30, 2012	<u>\$ 46,206,205</u>	<u>\$ 47,944,685</u>	<u>\$ (1,738,480)</u>

Revenues for the City's governmental activities were \$63,683,112 for 2012, a change of \$(541,095) from the prior year. Taxes which include occupational license fees, property taxes, insurance premiums taxes, and net profit taxes comprise 63.7% of total revenue in fiscal year 2012. The \$364,113 (0.91%) increase in taxes is important. The increase, although modest, is the first time in the past three years that taxes have increased from the previous year.

Operating grants and contributions as well as capital grants both realized a drop off in revenue from the previous year. Federal stimulus money reached its peak in previous fiscal year and will continue to decrease as stimulus funds are fully spent.

Total expenses for the City's governmental activities were \$65,421,592 for 2012, a 1.43% increase from the prior year. Increases in health care costs as well as pension costs exceeded the budget reductions expected to be realized during the fiscal year.

CITY OF COVINGTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fund Financial Statements

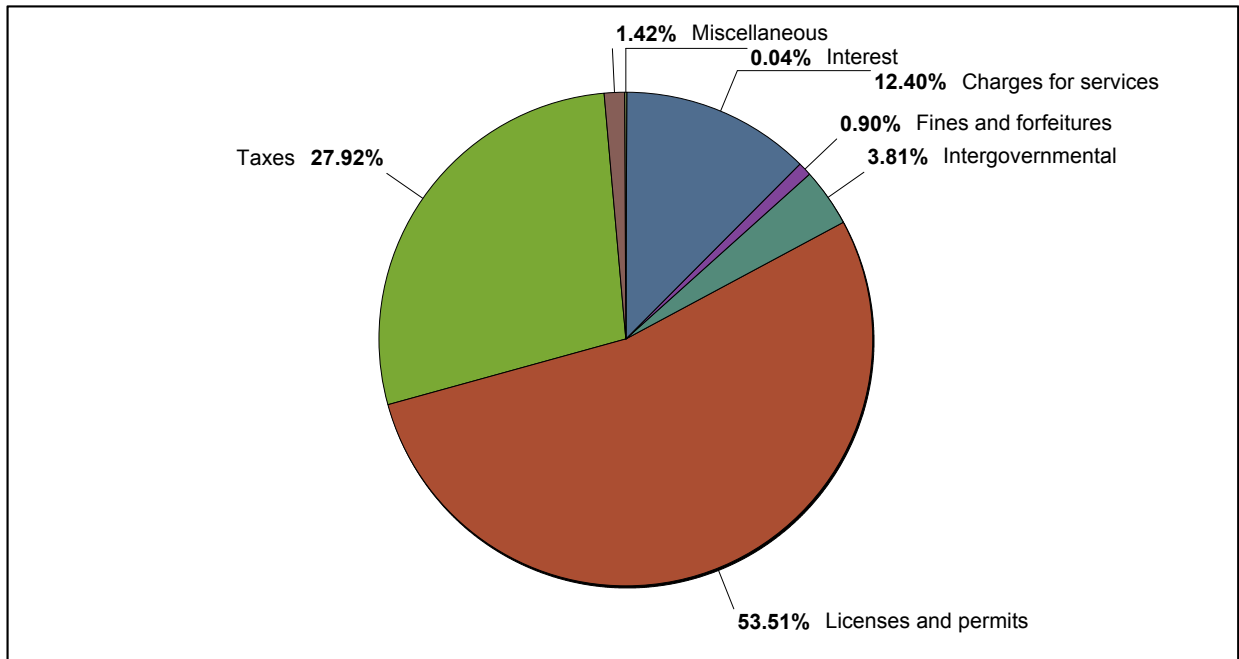
GENERAL FUND

The following schedules and charts present a summary of the General Fund revenues and expenditures for the fiscal year ended June 30, 2012, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2012 Amount	Percent of Total	Increase (Decrease) from FYE 2011	Percent Increase (Decrease)
Taxes	\$ 13,657,232	27.92 %	\$ (148,928)	(1.08)%
Licenses and permits	26,175,310	53.51 %	813,055	3.21 %
Intergovernmental	1,862,791	3.81 %	210,175	12.72 %
Fines and forfeitures	439,189	0.90 %	(119,276)	(21.36)%
Charges for services	6,063,323	12.40 %	668,975	12.40 %
Interest	21,948	0.04 %	(23,937)	(4.29)%
Miscellaneous	695,022	1.42 %	79,161	172.52 %
Total revenues	<u>\$ 48,914,815</u>	<u>100.00 %</u>	<u>\$ 1,479,225</u>	<u>3.12 %</u>

Taxes which include real estate taxes, personal property taxes, and insurance premiums taxes decreased \$(148,928). Total taxable assessed value decreased \$23.1 million for a total taxable assessed value of \$2.1 billion. Occupational License revenue includes both a payroll occupational license fee and a net profit occupational license fee on businesses. Licenses and permits increased by \$813,055 or 3.21% from the prior fiscal year and are expected to remain relatively flat into the next fiscal year. With revenue growth between 2.52% and 3.21% over the past fiscal years, there will be increasing pressure to further cap or reduce operating expenses.

2012 General Fund Revenues



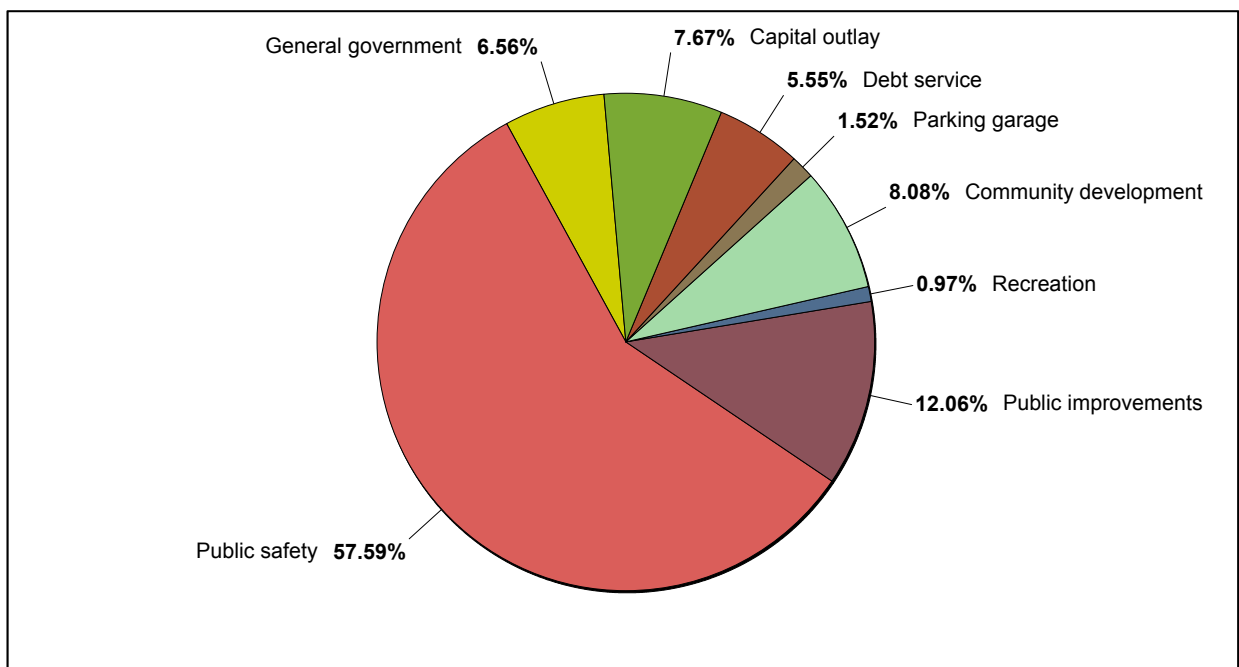
CITY OF COVINGTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Expenditures increased from the prior year by 1.69%, or \$811,652.

Expenditures	FYE 2012 Amount	Percent of Total	Increase (Decrease) from FYE 2011	Percent Increase (Decrease)
General government	\$ 3,207,768	6.56 %	\$ 87,881	2.82 %
Public safety	28,143,840	57.59 %	(301,590)	(1.06)%
Public improvements	5,891,702	12.06 %	(377,181)	(6.02)%
Recreation	475,601	0.97 %	20,389	4.48 %
Community development	3,947,945	8.08 %	198,495	5.29 %
Parking garage	743,506	1.52 %	(122,441)	(14.14)%
Debt service	2,712,239	5.55 %	354,582	15.04 %
Capital outlay	3,743,244	7.67 %	951,517	34.08 %
Total expenditures	<u>\$ 48,865,845</u>	<u>100.00 %</u>	<u>\$ 811,652</u>	<u>1.69 %</u>

2012 General Fund Expenditures



Capital outlay represents the largest increase in expenditures over the prior year. Approximately \$1.5 million in unspent proceeds from taxable General Obligation Recovery Zone Bonds were carried forward from the prior year and were expended during 2012 on capital items.

CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Other Governmental Funds

The City's governmental funds reported a combined ending fund balance of \$3,292,864, a decrease of \$(1,902,263) from the previous year. The General Fund unassigned fund balance is \$1,043,176, or 2.1% of General Fund operating expenses. The City Commission has established a goal of 5.0% of General Fund operating expenses as a minimum fund balance retention policy.

The fiscal year 2011, the Government Funds Balance Sheet included \$1,577,223 in fund balance restricted for capital projects. As noted previously, Taxable General Obligation Recovery Zone Bonds were issued in the amount of \$2,650,000 in fiscal year 2011. At June 30, 2011, \$1,577,223 remained of the \$2,650,000 and was spent in fiscal year 2012 resulting in the majority of the \$1,902,263 decrease in General Fund fund balance.

Community Development Block Grant -

The Community Development Block Grant is a cost reimbursement HUD funded program. There is no fund balance and therefore no change in fund balance to report.

HOME Program -

There was minimal change in fund balance for the HOME Program of \$239. The HOME program is HUD funded and cost reimbursement. Program income is recognized before drawdowns can be sufficiently reduced which accounts for the fund balance.

Housing Voucher Program -

The Housing Voucher Program fund balance increased \$256,087 to \$1,445,087. Reimbursement of units rented is based on how well the City utilizes its unit capacity. Administration is reimbursed on a per unit basis as well. If managed correctly, the jurisdiction can see increases in fund balance. The fund balance is then restricted for Housing Voucher Program purposes.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Commission approved revisions of the General Fund budget one time. The final amended budget resulted in a net \$328,817 increase in appropriations and transfers. Differences between original budget and final amended budget can be summarized as follows:

\$10,000	increase in Legal
\$(1,646)	decrease in Finance
\$(108,174)	decrease in Police
\$725,000	increase in Fire
\$(151,363)	decrease in Department of Public Improvements
\$10,000	increase in Code Enforcement (Community Development)
\$(100,000)	decrease in Economic Development
\$20,000	increase in Parking Garages
\$(75,000)	decrease in transfers

The budget amendment was made to more closely reflect the anticipated actual expense for the year and to formally adopt as part of the budget changes in staff or activities that were approved by the City Commission during the year. It also reflected budget changes required by GASB Statement Number 54. The net budgetary increase was absorbed by unassigned fund balance.

The decreases are primarily due to selectively freezing vacant positions and partially implementing a comprehensive savings plan.

The increase in Fire was a result of the inability of City administration and Firefighter Local 38 to reach a contractual agreement to realize budgeted savings during fiscal year 2012.

CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt Administration

At year-end, the City had \$35,323,350 in outstanding notes, capital leases, bonds, and compensated absences compared to \$39,127,643 the prior year. The following is a summary of the changes in the City's outstanding long-term debt from fiscal year 2012 to fiscal year 2011.

	Governmental Activities	
	2012	2011
Mortgage Bonds and Notes Payable (backed by city)	\$ 18,960,628	\$ 21,289,349
Capital Lease Obligations (backed by city)	15,081,134	16,247,510
Compensated Absences	1,281,588	1,590,784
Totals	<u>\$ 35,323,350</u>	<u>\$ 39,127,643</u>

The Kentucky Constitution states that the total principal amount of indebtedness, which excludes self-supporting obligations, revenue bonds, special assessment debt, and non-tax supported debt, cannot exceed 10% of the value of taxable property in the City. The debt limit for the City of Covington is \$211 million. The City's latest bond rating (December 13, 2010) is A2 from Moody's Investors Service.

The City issues and incurs debt in order to fund capital improvement projects, purchase capital equipment and facilities, and respond to other economic development needs. No debt was issued during fiscal year 2012.

Additional information on the City's long-term debt can be found on pages 46-49.

Capital Assets

The City's capital assets, net of depreciation as of June 30, 2012 totaled \$56,255,259, a decrease of \$1,500,364 from last year.

Major capital additions for the year were as follows:

RiverCenter plaza and garage restoration	\$ 617,336
CAD/RMS system replacement for Police Department	\$ 604,060
New parking gates and automated payment systems for City garages	\$ 593,323
Police cruisers (16)	\$ 386,902
Cardiac monitors and MSA gas detectors for Fire Department	\$ 347,444
New concession and restroom facility at Devou Park bandshell	\$ 321,587

CITY OF COVINGTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The following is a summary by classification, net of accumulated depreciation, of the City's capital assets for fiscal year 2012 and fiscal year 2011.

	Governmental Activities	
	2012	2011
Land	\$ 14,569,320	\$ 14,617,829
Land improvements	1,551,092	1,427,370
Building	14,060,062	14,650,903
Building Improvements	2,749,406	1,581,548
Vehicles	1,209,427	1,102,990
Other equipment	1,667,377	715,972
Public domain infrastructure	19,795,256	23,659,011
Construction in progress	653,319	-
Totals	<u>\$ 56,255,259</u>	<u>\$ 57,755,623</u>

Additional information on the City's capital assets can be found on page 43.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The unemployment rate for Kenton County fell from 9.7% to 8.9%. Occupational license taxes, which are more than 55% of General Fund revenues, increased from the previous year for the first time in three years during fiscal year 2012. Fiscal Year 2013 revenue targets were budgeted to be flat with one exception. A rate decrease in the payroll occupational license tax from 2.5% to 2.45% was built into the revenue projections. This is the first change of the rate since 1966 and hopefully the City will be able to reduce the rate further. Job growth and job retention will be the focus of the newly reorganized Economic Development Department and the rate reduction will make the City more competitive with surrounding cities.

Collective bargaining agreements have been successfully negotiated with all three unions which extend through the end of calendar year 2015. The most significant aspect of the new collective bargaining agreements is a new health care plan design which will net the City \$2 million per year after pay increases.

As a result of closing the City's 911 dispatch center and allowing Kenton County to provide 911 dispatch services, the City will save approximately \$1 million per year. Sixteen dispatcher positions were eliminated. As a whole, full time equivalents have fallen from approximately 370 during 2012 to an estimated 340 for the upcoming fiscal year.

The Financial Recovery Plan is in place and savings will be used to replenish fund balances and reinvest in capital assets.

CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert J. Due, Finance Director, 638 Madison Avenue, Covington, Kentucky 41011. Questions or requests for additional information can also be e-mailed to bdue@covingtonky.gov.

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**BASIC
FINANCIAL STATEMENTS**

City of Covington, Kentucky

Statement of Net Assets

June 30, 2012

	Primary Government Governmental Activities	Component Unit Devou Properties, Inc.
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,666,942	\$ 2,243,245
Receivables (net of allowance for doubtful accounts)		
Property taxes	4,698,470	-
Intergovernmental	633,425	-
Notes	16,843,635	-
Accounts	2,587,624	105,527
Prepaid items	98,617	4,404
Total current assets	<u>29,528,713</u>	<u>2,353,176</u>
Noncurrent assets		
Deferred charges, net	249,579	-
Deferred outflow - hedges	1,174,521	-
Net pension obligation asset	2,718,987	-
Land and construction in progress	16,773,731	-
Depreciable capital assets	164,239,777	82,388
Less accumulated depreciation	<u>(124,758,249)</u>	<u>(33,518)</u>
Total noncurrent assets	<u>60,398,346</u>	<u>48,870</u>
Total assets	<u>89,927,059</u>	<u>2,402,046</u>
LIABILITIES		
Current liabilities		
Accounts payable	2,161,273	18,382
Accrued liabilities	3,153,834	330,422
Accrued interest payable	275,762	-
Unearned revenue	1,632,114	-
Accumulated compensated absences	1,281,588	-
Current portion of capital lease obligations	1,218,660	-
Current portion of bonds and notes payable	2,079,757	-
Total current liabilities	<u>11,802,988</u>	<u>348,804</u>
Noncurrent liabilities		
Noncurrent portion of capital lease obligations	13,862,474	-
Noncurrent portion of bonds and notes payable	16,880,871	-
Derivative instrument - liability	1,174,521	-
Total noncurrent liabilities	<u>31,917,866</u>	<u>-</u>
Total liabilities	<u>43,720,854</u>	<u>348,804</u>
NET ASSETS		
Invested in capital assets, net of related debt	34,173,497	48,870
Restricted for capital projects	190,681	-
Restricted for HUD Programs	16,648,464	-
Unrestricted	<u>(4,806,437)</u>	<u>2,004,372</u>
Total net assets	<u>\$ 46,206,205</u>	<u>\$ 2,053,242</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky

Statement of Activities

Year Ended June 30, 2012

Function/Programs					Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Program Revenues			Primary Governmental Activities	Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government						
Governmental activities						
General government	\$ 4,250,735	\$ 936,996	\$ 762,045	\$ 463,010	\$ (2,088,684)	
Police	16,455,964	189,671	915,968	205,958	(15,144,367)	
Fire	15,180,999	1,333,724	-	-	(13,847,275)	
Public improvements	11,349,786	2,342,050	500,848	978,188	(7,528,700)	
Recreation	711,584	22,753	-	-	(688,831)	
Community development	15,379,018	169,209	10,340,048	-	(4,869,761)	
Parking garage	768,661	1,674,834	-	-	906,173	
Interest on long-term debt	1,324,845	-	-	-	(1,324,845)	
Total primary government	<u>\$ 65,421,592</u>	<u>\$ 6,669,237</u>	<u>\$ 12,518,909</u>	<u>\$ 1,647,156</u>	<u>(44,586,290)</u>	
Component Unit						
Devou Properties, Inc.	<u>\$ 674,992</u>	<u>\$ 947,378</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 272,386</u>
General revenues						
Taxes						
Real property taxes, levied for general purposes					6,141,332	-
Personal property taxes, levied for general purposes					796,259	-
Public service taxes					1,944,431	-
Taxes, levied for bank deposits					87,014	-
Insurance premium taxes					4,988,428	-
Payroll taxes					22,764,392	-
Net profits taxes					3,011,825	-
Other taxes					805,015	-
Investment earnings					23,084	1,160
Miscellaneous					<u>2,286,030</u>	<u>-</u>
Total general revenues					<u>42,847,810</u>	<u>1,160</u>
Change in net assets					<u>(1,738,480)</u>	<u>273,546</u>
Net assets - beginning of year, as restated (see Note 2)					<u>47,944,685</u>	<u>1,779,696</u>
Net assets - end of year					<u>\$ 46,206,205</u>	<u>\$ 2,053,242</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky
Balance Sheet - Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Community Development Block Grant</u>	<u>HOME Program</u>	<u>Housing Voucher Program</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 1,405,088	\$ -	\$ 25,200	\$ 1,307,102	\$ 861,059	\$ 3,598,449
Receivables						
Taxes	4,698,470	-	-	-	-	4,698,470
Intergovernmental	-	106,322	45,283	197,000	284,820	633,425
Notes	1,941,855	5,953,021	5,942,623	-	3,006,136	16,843,635
Accounts	1,732,225	-	-	27,745	827,654	2,587,624
Due from other funds	961,418	145,804	59,184	20,867	3,342	1,190,615
Prepaid expenses	<u>98,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,617</u>
TOTAL ASSETS	<u>\$ 10,837,673</u>	<u>\$ 6,205,147</u>	<u>\$ 6,072,290</u>	<u>\$ 1,552,714</u>	<u>\$ 4,983,011</u>	<u>\$ 29,650,835</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 1,537,104	\$ 80,336	\$ 245	\$ 1,872	\$ 374,286	\$ 1,993,843
Accrued liabilities	1,353,543	-	-	14,500	-	1,368,043
Due to other funds	1,377,636	-	-	-	961,418	2,339,054
Deferred revenue	<u>5,236,916</u>	<u>6,124,811</u>	<u>5,942,623</u>	<u>90,870</u>	<u>3,261,811</u>	<u>20,657,031</u>
Total liabilities	<u>9,505,199</u>	<u>6,205,147</u>	<u>5,942,868</u>	<u>107,242</u>	<u>4,597,515</u>	<u>26,357,971</u>
FUND BALANCES						
Non-spendable						
Prepaid expenses	98,617	-	-	-	-	98,617
Restricted for						
Capital projects	190,681	-	-	-	-	190,681
HUD projects	-	-	129,422	1,445,472	-	1,574,894
Committed for						
Devou Park maintenance	-	-	-	-	22,464	22,464
Police	-	-	-	-	83,657	83,657
Debt service	-	-	-	-	279,375	279,375
Unassigned	<u>1,043,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,043,176</u>
Total fund balances	<u>1,332,474</u>	<u>-</u>	<u>129,422</u>	<u>1,445,472</u>	<u>385,496</u>	<u>3,292,864</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,837,673</u>	<u>\$ 6,205,147</u>	<u>\$ 6,072,290</u>	<u>\$ 1,552,714</u>	<u>\$ 4,983,011</u>	<u>\$ 29,650,835</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

June 30, 2012

Total fund balance - Governmental funds	\$	3,292,864
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net assets.

Cost of capital assets	181,013,508	
Accumulated depreciation	<u>(124,758,249)</u>	56,255,259

Certain other long-term assets are not available to pay current period expenditures and are therefore deferred in the funds.	19,024,917
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Internal service funds are used by management to charge the cost of certain activities, such as liability and health and dental insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	263,711
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Deferred charges represent costs related to the issuance of new bonds and also refunding costs. Deferred charges are reported as an other use of funds in the governmental funds statements. However, on the government wide statement of net assets these costs are capitalized and reported as a deferred charge, and amortized over the life of the related bonds.	249,579
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Net pension obligation asset represents contributions made to the City's pension funds in excess of the actuarially required contribution. The excess contributions are capitalized and amortized.	2,718,987
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Interest payable on long-term debt does not require current financial resources. Therefore accrued interest payable is not reported as a liability in the governmental funds balance sheet.	(275,762)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

Bonds payable	(18,960,628)	
Capital lease obligations payable	(15,081,134)	
Compensated absences payable	<u>(1,281,588)</u>	
Total liabilities		<u>(35,323,350)</u>

Net assets of governmental activities	\$	<u>46,206,205</u>
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The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2012

	General Fund	Community Development Block Grant	HOME Program	Housing Voucher Program	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 13,657,232	\$ -	\$ -	\$ -	\$ 805,015	\$ 14,462,247
Licenses and permits	26,175,310	-	-	-	-	26,175,310
Intergovernmental	1,862,791	1,324,411	383,500	6,815,411	4,123,559	14,510,735
Charges for services	6,063,323	-	-	-	-	6,063,323
Fines and forfeitures	439,189	-	-	-	-	439,189
Investment earnings	21,948	-	132	830	174	23,084
Miscellaneous	695,022	731,849	66,359	1,309	954,483	2,449,022
Total revenues	<u>48,914,815</u>	<u>2,056,652</u>	<u>450,081</u>	<u>6,818,131</u>	<u>5,883,231</u>	<u>64,122,910</u>
EXPENDITURES						
Current						
General government	3,207,768	-	-	-	411,120	3,618,888
Police	14,902,625	-	-	-	686,153	15,588,778
Fire	13,241,215	-	-	-	601,547	13,842,762
Public improvements	5,891,702	-	-	-	-	5,891,702
Recreation	475,601	-	-	-	-	475,601
Community development	3,947,945	1,558,287	398,606	6,562,044	1,637,680	14,104,562
Parking garages	743,506	-	-	-	-	743,506
Debt service						
Principal	2,147,521	-	-	-	1,535,000	3,682,521
Interest and other charges	564,718	18,046	-	-	640,782	1,223,546
Capital outlay	<u>3,743,244</u>	<u>147,819</u>	<u>51,236</u>	<u>-</u>	<u>1,905,241</u>	<u>5,847,540</u>
Total expenditures	<u>48,865,845</u>	<u>1,724,152</u>	<u>449,842</u>	<u>6,562,044</u>	<u>7,417,523</u>	<u>65,019,406</u>
Excess (deficiency) of revenues over expenditures	<u>48,970</u>	<u>332,500</u>	<u>239</u>	<u>256,087</u>	<u>(1,534,292)</u>	<u>(896,496)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	1,595,013	-	-	-	2,495,181	4,090,194
Proceeds from sale of capital assets	5,517	-	-	-	-	5,517
Transfers out	<u>(3,937,681)</u>	<u>(332,500)</u>	<u>-</u>	<u>-</u>	<u>(831,297)</u>	<u>(5,101,478)</u>
Total other financing sources (uses)	<u>(2,337,151)</u>	<u>(332,500)</u>	<u>-</u>	<u>-</u>	<u>1,663,884</u>	<u>(1,005,767)</u>
NET CHANGE IN FUND BALANCES	<u>(2,288,181)</u>	<u>-</u>	<u>239</u>	<u>256,087</u>	<u>129,592</u>	<u>(1,902,263)</u>
FUND BALANCES - beginning of year	<u>3,620,655</u>	<u>-</u>	<u>129,183</u>	<u>1,189,385</u>	<u>255,904</u>	<u>5,195,127</u>
FUND BALANCES - end of year	<u>\$ 1,332,474</u>	<u>\$ -</u>	<u>\$ 129,422</u>	<u>\$ 1,445,472</u>	<u>\$ 385,496</u>	<u>\$ 3,292,864</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds to the Statement of Activities

Year Ended June 30, 2012

Changes in fund balances - Total governmental funds	\$ (1,902,263)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense exceeds capital outlays in the period.	
Depreciation expense	(5,979,132)
Capital outlays	<u>4,527,277</u>
	(1,451,855)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset sold.	(48,509)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.	(396,806)
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	3,682,521
The statement of activities reports annual pension cost, which includes the actuarially required contribution along with an interest factor and adjustment of the net pension obligation asset.	(1,895,035)
Accrued interest not reflected on governmental funds.	(45,118)
In the statement of activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated sick leave.	309,196
Costs related to the issuance of bonds and deferred refunding costs are reported as an other use of funds in the governmental funds financial statements. However, on the government-wide statement of net assets, these costs are capitalized and reported as a deferred charge, and subsequently amortized over the life of the related bonds.	(56,181)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with the governmental activities.	<u>65,570</u>
Total change in net assets - governmental activities	\$ <u>(1,738,480)</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky
Statement of Net Assets - Proprietary Funds
June 30, 2012

	Governmental Activities
	Internal Service Funds
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,068,493
Due from other funds	<u>1,148,439</u>
Total assets	<u>2,216,932</u>
LIABILITIES	
Current liabilities	
Accounts payable	167,430
Estimated liability for claims	<u>1,785,791</u>
Total liabilities	<u>1,953,221</u>
NET ASSETS	
Unrestricted	\$ <u>263,711</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds

Year Ended June 30, 2012

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Insurance premium payments	\$ 5,803,748
Other operating revenues	<u>420,478</u>
Total operating revenues	<u>6,224,226</u>
OPERATING EXPENSES	
Contractual services	693,045
Claims and judgments	<u>6,477,166</u>
Total operating expenses	<u>7,170,211</u>
OPERATING LOSS	(945,985)
NON-OPERATING REVENUES	
Investment income	<u>271</u>
Loss before transfers	(945,714)
Transfers in	<u>1,442,500</u>
Transfers out	<u>(431,216)</u>
CHANGE IN NET ASSETS	65,570
NET ASSETS - beginning of year	<u>198,141</u>
NET ASSETS - end of year	<u>\$ 263,711</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2012

	Governmental Activities
	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from other funds	\$ 5,900,917
Cash received from other activities	420,478
Cash paid for claims	<u>(6,136,211)</u>
Net cash flows from operating activities	185,184
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	844,588
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>271</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,030,043
CASH AND CASH EQUIVALENTS - beginning of year	<u>38,450</u>
CASH AND CASH EQUIVALENTS - end of year	\$ <u>1,068,493</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$ (945,985)
Changes in operating assets and liabilities	
Accounts receivable	186,350
Due from other funds	(89,181)
Accounts payable	86,169
Estimated liability claims	<u>947,831</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ <u>185,184</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky
Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2012

	<u>Employees'</u> <u>Retirement</u>	<u>Police and</u> <u>Firemen's</u> <u>Retirement</u>
ASSETS		
Cash and cash equivalents	\$ 207,003	\$ 345,627
Investments	<u>3,253,079</u>	<u>7,716,619</u>
Total assets	<u>3,460,082</u>	<u>8,062,246</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 3,460,082</u>	<u>\$ 8,062,246</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
Year Ended June 30, 2012

	<u>Employees'</u> <u>Retirement</u>	<u>Police and</u> <u>Firemen's</u> <u>Retirement</u>
ADDITIONS		
Employee contributions	\$ 1,010	\$ -
Impounding lot	<u>-</u>	<u>83,534</u>
Total revenues	<u>1,010</u>	<u>83,534</u>
Investment return		
Interest and dividends	104,985	237,389
Net depreciation in fair value of investments	<u>(122,301)</u>	<u>(272,566)</u>
Total net investment return	<u>(17,316)</u>	<u>(35,177)</u>
Total additions	<u>(16,306)</u>	<u>48,357</u>
DEDUCTIONS		
Benefit payments	512,552	1,526,236
Administration	<u>13,230</u>	<u>33,777</u>
Total deductions	<u>525,782</u>	<u>1,560,013</u>
CHANGE IN NET ASSETS	(542,088)	(1,511,656)
NET ASSETS - beginning of year	<u>4,002,170</u>	<u>9,573,902</u>
NET ASSETS - end of year	<u>\$ 3,460,082</u>	<u>\$ 8,062,246</u>

The accompanying notes are an integral part of the financial statements.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The basic financial statements of the City of Covington, Kentucky, have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Covington is a municipality that operates under a City Manager form of government. Legislative authority is vested in the elected Mayor and four City Commissioners. As required by U.S. generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit of the City has a June 30 year end. The component units discussed below are included in the City's reporting entity as part of the primary government because of the significance of its operational and/or financial relationship with the City.

Blended Component Units Included Within the Reporting Entity

City of Covington Non-Uniformed Employees' Pension Fund

Certain City employees participate in the non-uniformed employee pension fund. The fund functions for the benefit of these employees and is governed by a four member board of trustees. The mayor, finance director, and two appointed and approved employees constitute the board. The City and plan participants are obligated to fund all costs based upon actuarial valuations.

City of Covington Police and Firemen's Pension Fund

All public safety employees who retired prior to August 1, 1989, participate in the Police & Firemen's Pension Fund. The fund functions for the benefit of the retirees and is governed by a four member board of trustees, consisting of the mayor, finance director and two public safety retirees. The City is obligated to fund all costs based upon actuarial valuations.

City of Covington Municipal Properties Corporation

The City of Covington Municipal Properties Corporation was formed to act as an agent and to be instrumental in the financing of public improvements and projects of a capital nature for the City and for the particular purpose of acquiring real estate located within the City and constructing, acquiring and equipping thereon capital improvements, facilities, buildings, structures and related appurtenances. The Corporation finances these projects by the issuance of debt. These debt issues are secured by (1) first mortgage liens on the projects, (2) lease and option agreements between the Corporation and the City, the construction agreements and pledged receipts. The lease and option agreements require the City to pay rental, on a yearly basis with the option to renew each year, equal to the amount of bonds and interest coupons coming due in that year. If the City renews the leases from year-to-year, and pays the rentals for each year as stipulated, and when the Corporation has fully paid and retired all of the bonds, the Corporation agrees it will convey the properties to the City free and clear.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies - continued

Discretely Presented Component Units Included Within the Reporting Entity

Devou Properties, Inc. (a non-profit organization) is included in the City's financial statements as a discretely presented component unit. Although a legally separate entity, Devou Properties, Inc. is included in these financial statements because of its financial accountability to the City. Devou Properties, Inc. was formed to maintain and operate the Drees Pavilion at Devou Memorial Overlook for the City of Covington, for the benefit of Devou Park. Devou Properties, Inc. is responsible for renting out the facilities for events, including weddings, receptions and corporate events. Directors of Devou Properties, Inc. are appointed by the City's Board of Commissioners, upon the recommendation of the Mayor. Any excess funds from operations of the facility are to be set aside to be used on Devou Park projects. As a discretely presented component unit, the financial statements of Devou Properties, Inc. are only included on the City's government-wide financial statements in a column that makes it clearly separate from the primary government. Devou Properties, Inc. operates on a calendar year-end basis; therefore, the financial statements for the year ended December 31, 2011, are included in the City's current financial statements. Audited financial statements of Devou Properties, Inc. are available and may be obtained by contacting the City Manager.

Basis of Presentation Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements; however, interfund services provided and used are not eliminated. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Material revenues susceptible to accrual are payroll license fees, insurance fees and grant revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following funds of the financial reporting entity:

- The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.
- The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.
- The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following proprietary funds:

- The City has two internal service funds. One fund is for self-insurance for the City's health and dental insurance program for City employees. The second fund is for the self-insurance of the City's liability claims.

Additionally, the City reports two fiduciary funds. The two pension trust funds account for the activities of the Employees' Retirement Fund and the Police and Firemen's Pension Fund. These funds are for the accumulation of resources for pension benefit payments to qualified retired employees.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government that are not accounted for in the other funds.
- The Community Development Block Grant Fund accounts for entitlements to the City under the provisions of Title 1 of the Housing and Development Act of 1974. Resources include a combination of block and other entitlement grants. Resources may only be used for activities which are directed toward developing urban communities and economic opportunities for persons of low and moderate income.
- The HOME Program Fund accounts for resources provided by the U.S. Department of Housing and Urban Development under the HOME Program. Proceeds are used for deferred loans which are used to acquire, construct or rehabilitate housing for low income families.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies - continued

- The Housing Voucher Fund accounts for funds provided to the City by the U.S. Department of Housing and Urban Development Section 8 rent subsidy program. Resources are used for the payment of rent subsidies to landlords on behalf of qualified tenants.

In addition, the City reports the following non-major governmental funds:

Special Revenue Funds

- Police and Fire Incentive Pay – This fund was established to account for entitlements received under the State of Kentucky's Policemen and Firemen's Supplemental Pay Programs.
- Devou Park Maintenance – This fund was established by Commissioners' ordinance in 1973 to account for the maintenance of roadways and streets within Devou Park.
- Devou Park Master Plan – This fund is used to account for revenues and expenditures of funds allocated for use in Devou Park, from proceeds of the operation of the Drees Pavilion.
- Federal and State Grant Funds – This fund was established to account for the revenues and expenditures related to grants awarded by federal and state agencies.
- Police Forfeiture – This fund was established to account for the resources provided for by police forfeitures.
- CAD System – This fund was established to account for revenues and expenditures related to the installation of a computer assisted dispatch system, and the subsequent debt service payments for the related capital lease.
- Renaissance Grant Fund – This fund was established to account for revenues and expenses related to renaissance grants received by the City.
- Home Consortium Fund – This fund was established to administer a HOME Program for a consortium of non entitlement cities in Northern Kentucky, including Newport, Bellevue, Dayton, Ludlow and Bromley. HOME funds are used to provide assistance to persons to purchase a home, owner-occupied rehab programs, and housing development activities with Community Housing Development organizations.
- Homeless Prevention Fund – This fund is used to administer U.S. Department of Housing and Urban Development funds to be used for foreclosure remediation.
- Neighborhood Stabilization Program – This fund was established to administer a U.S. Department of Housing and Urban Development grant to develop low income rental units and owner occupied homes purchased out of foreclosure.

Debt Service Funds

- 2004 Pension Obligation Bonds – The proceeds of this issue were used to fund the Employees' Retirement Fund and the Police and Fire Retirement Fund
- 2005 Refunding Bonds – The proceeds of this issue were used to refund the 1995 First Mortgage Bonds.

Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

Cash and cash equivalents includes amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies - continued

The City is authorized by state statute to invest in:

- Obligations of the United States and of its Agencies and Instrumentalities
- Certificates of Deposits
- Bankers' Acceptances
- Commercial Paper
- Bonds of Other State or Local Governments
- Mutual Funds

Investments

In accordance with Government Accounting Standards Board requirements, investments held at June 30, 2012, are recorded at fair value based on quoted market prices.

Types of investments allowable in the Pension Trust Funds are governed by the Pension Board of Trustees. All investments are stated in accordance with GASB requirements.

Property Tax Receivable

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately August 15 and are due and payable on September 30. On October 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on October 1.

Notes Receivable

Notes receivable are carried at their unpaid principal balance.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items in both the government-wide and fund statements. The consumption method is used in the fund statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in a propriety fund. These assets are reported in the governmental activities column of the government-wide statement of net assets.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure, such as streets, traffic signals and signs are capitalized, including infrastructure acquired prior to the implementation of the GASB Statement entitled "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies - continued

cost based on replacement cost. Donated capital assets are recorded at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. The City maintains a capitalization threshold of one thousand dollars with the exception of infrastructure for which the threshold is twenty-five thousand dollars.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

Description	Governmental Activities Estimated Lives
Buildings	30 years
Buildings and improvements	10 - 20 years
Public domain infrastructure	25 - 35 years
Vehicles	5 - 10 years
Office equipment	3 - 10 years

Compensated Absences

Vested or accumulated vacation leave that has matured and is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Unearned/Deferred Revenue

In the government-wide financial statements, unearned revenue represents the amount for which revenue recognition criteria have not been met. In subsequent periods, when the incurrence of qualifying expenditures has been made, the liability for the unearned revenue is removed and the revenue is recognized. In the governmental fund financial statements, revenues are deferred for amounts that are unearned or unavailable.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies - continued

Fund Equity

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, are capital assets less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

In the governmental fund financial statements, fund balances are classified as follows:

- Non-spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Commission ordinance or resolution.
- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Commission.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, when both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned and unassigned - in order as needed.

Revenues, Expenditures and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from internal insurance premiums. It also includes all revenue and expenses related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities. In the fund financial statements, governmental funds are classified as follows:

Governmental Funds – by Character

Current - Further Classified by Function
Debt Service
Capital Outlay

Proprietary Fund – by Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses related to the use of economic resources.

Interfund Transactions

Interfund services provided/used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies - continued

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgetary Information

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds and for proprietary funds.

Note 2 - Correction of Net Asset Balances in Prior Year

The City's net assets as of June 30, 2011, have been adjusted to correct errors in classification of net asset balances. The adjustment had no effect on the change in net assets for the year ended June 30, 2011. The effect of the correction of net asset balances as of June 30, 2012, is as follows:

Net Assets	June 30, 2011 (As Originally Reported)	Effect of Adjustment	June 30, 2011 (As Restated)
Invested in capital assets, net of related debt	\$ 36,088,303	\$ -	\$ 36,088,303
Restricted for capital projects	1,577,223	-	1,577,223
Restricted for HUD Programs	1,318,568	14,519,093	15,837,661
Restricted for Police Incentive	3,321	-	3,321
Restricted for grant programs	24,040	-	24,040
Unrestricted	<u>8,933,230</u>	<u>(14,519,093)</u>	<u>(5,585,863)</u>
	<u>\$ 47,944,685</u>	<u>\$ -</u>	<u>\$ 47,944,685</u>

Note 3 - Stewardship, Compliance and Accountability

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with City ordinance, prior to June 1, the City Manager submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- A public meeting is conducted to obtain taxpayer comment.
- Prior to June 30, the budget is legally enacted through passage of an ordinance.
- The City Manager is required by Kentucky revised statutes to present a quarterly report to the Mayor and Board of Commissioners explaining any variance from the approved budget.
- Appropriations continue in effect until a new budget is adopted.

The Board of Commissioners may authorize supplemental appropriations during the year.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 3 - Stewardship, Compliance and Accountability - continued

Expenditures may not legally exceed budgeted appropriations at the fund level. Any amendments to the budget that would change fund level totals must be approved by the Board of Commissioners. Encumbrance accounting is not employed by the City. During the year, the Board of Commissioners adopted two supplementary appropriation ordinances. Appropriations lapse at year end unless a new budget has not been adopted.

Excess of Expenditures over Appropriations

The following funds had expenditures in excess of legally adopted appropriations for the year ended June 30, 2012:

	<u>Budget</u>	<u>Actual</u>
2005 Refunding Bonds	\$ 1,186,760	\$ 1,186,971
Liability Insurance	600,000	1,366,887

Note 4 - Deposits

Cash and Cash Equivalents

The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

As of June 30, 2012, \$250,000 of the City's deposits are insured by the FDIC, and \$9,287,829 of the City's deposits are collateralized with securities held by the pledging institution's trust department but not in the City's name. As of June 30, 2012, the City did not have any deposits in excess of insured and/or collateralized amounts.

As of December 31, 2011, Devou Properties, Inc. (a component unit of the City) had \$1,993,245 in cash in excess of insured limits.

Investments

Investments are made by the City as an agent for the City Employee's Retirement Fund and the Police and Firemen's Pension Fund. The City maintains investment accounts with brokerage institutions which hold the investments registered in the City's name. As of June 30, 2012, all of the City's investments were covered by SIPC coverage or excess SIPC coverage provided by the institution, and are therefore not subject to custodial credit risk.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its cash, investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. As of June 30, 2012, the City had \$9,287,829 of deposits collateralized with securities held by the pledging institution's trust department but not in the City's name.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 5 - Capital Assets and Depreciation

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance Beginning of Year	Additions	Retirements/ Deletions	Balance End of Year
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 14,617,829	\$ -	\$ 48,509	\$ 14,569,320
Land improvements	1,427,370	123,722	-	1,551,092
Construction in progress	-	653,319	-	653,319
Total capital assets not being depreciated	<u>16,045,199</u>	<u>777,041</u>	<u>48,509</u>	<u>16,773,731</u>
Depreciable capital assets				
Buildings	24,146,530	8,591	87,226	24,067,895
Building improvements	9,962,263	1,515,643	-	11,477,906
Infrastructure	110,886,873	416,701	-	111,303,574
Machinery and equipment	4,927,527	1,374,014	207,679	6,093,862
Vehicles	10,933,659	435,287	72,406	11,296,540
Total depreciable capital assets	<u>160,856,852</u>	<u>3,750,236</u>	<u>367,311</u>	<u>164,239,777</u>
Less accumulated depreciation				
Buildings	9,495,627	599,432	87,226	10,007,833
Building improvements	8,380,715	347,785	-	8,728,500
Infrastructure	87,227,862	4,280,456	-	91,508,318
Machinery and equipment	4,211,555	422,609	207,679	4,426,485
Vehicles	9,830,669	328,850	72,406	10,087,113
Total accumulated depreciation	<u>119,146,428</u>	<u>5,979,132</u>	<u>367,311</u>	<u>124,758,249</u>
Total depreciable capital assets, net	<u>41,710,424</u>	<u>(2,228,896)</u>	<u>-</u>	<u>39,481,528</u>
Governmental activities capital assets, net	<u>\$ 57,755,623</u>	<u>\$ (1,451,855)</u>	<u>\$ 48,509</u>	<u>\$ 56,255,259</u>
Component Unit				
Devou Properties, Inc.				
Depreciable capital assets				
Property and equipment	\$ 71,238	\$ 11,150	\$ -	\$ 82,388
Less accumulated depreciation	<u>21,697</u>	<u>11,821</u>	<u>-</u>	<u>33,518</u>
Total component unit property and equipment, net	<u>\$ 49,541</u>	<u>\$ (671)</u>	<u>\$ -</u>	<u>\$ 48,870</u>

Depreciation was charged to functions as follows:

Governmental activities	
General government	\$ 307,540
Police	386,470
Fire	227,864
Public improvements	4,821,275
Recreation	<u>235,983</u>
Total governmental activities depreciation expense	<u>\$ 5,979,132</u>

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 6 - Interfund Activity

Interfund receivables/payables represent short-term loans from one fund to another to cover cash overdrafts.

Much of the City's revenue is received in the general fund, then transferred to various other funds in order to fund immediate expenditures. Interfund receivables/payables were as follows at June 30, 2012:

Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Devou Park master plan	\$ 523,319
	Police forfeiture	171
	CAD system	60,213
	Police and fire incentive	85,299
	Devou Park maintenance	95,330
	Federal and state grant	91,807
	Home consortium	54,239
	Neighborhood Stabilization Program	40,433
	2005 Refunding bonds	<u>10,607</u>
		961,418
Community development block grant	General fund	145,804
HOME Program	General fund	59,184
Housing voucher program	General fund	20,867
2004 Pension obligation	General fund	3,342
Liability insurance	General fund	851,667
Medical and dental insurance	General fund	<u>296,772</u>
		<u>\$ 2,339,054</u>

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 6 - Interfund Activity - continued

Interfund Transfers

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due. Much of the City's revenue is received in the general fund, then transferred to various other funds in order to fund immediate expenditures. The City made the following transfers during the fiscal year:

<u>Transfers From</u>	<u>Transfer To</u>	<u>Amount</u>
General fund	Devou Park maintenance	\$ 18,307
	2004 Pension obligation	1,262,841
	2005 Refunding bonds	1,214,033
	Liability insurance	<u>1,442,500</u>
Total transfers from the General fund		3,937,681
Community development block grant	General fund	332,500
Devou Park master plan	General fund	15,750
Medical and dental insurance	General fund	431,216
CAD system	General fund	<u>815,547</u>
		<u>\$ 5,532,694</u>

Note 7 - Short-Term Debt

On July 1, 2011 the city issued a Tax and Revenue Anticipation Note (TRAN) in the amount of \$3,500,000 for the purpose of providing working capital in advance of tax and revenue cash flows. This note carried a fixed interest rate of 1.24% and matured on June 30, 2012 at which time it was repaid out of the general fund.

During fiscal year 2012, the City maintained a line of credit to facilitate real estate development. The total amount of credit available is \$500,000 and the debt charges interest at 5.5%. This line of credit matures on August 1, 2012, and had an outstanding balance at June 30, 2012, of \$0. Subsequent to year end, this line of credit was not renewed.

During the year ended June 30, 2012, the following changes occurred in the City's short term debt:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>June 30, 2012</u>
Debt Issue				
TRAN	\$ -	\$ 3,500,000	\$ 3,500,000	\$ -
Line of credit	<u>187,424</u>	<u>-</u>	<u>187,424</u>	<u>-</u>
	<u>\$ 187,424</u>	<u>\$ 3,500,000</u>	<u>\$ 3,687,424</u>	<u>\$ -</u>

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 8 - General Long-Term Debt

Capital Lease Obligations

Capital lease obligations in the government-wide financial statements are reported as liabilities at lease inception. The related assets along with depreciation are reported at that time. Lease payments are reported as a reduction of the liability. For capital lease obligations in governmental funds, "Other Financing Sources – Lease Proceeds" and the expenditure are recorded at lease inception. Lease payments are recorded as expenditures.

The following capital lease obligations payable are payable from governmental fund revenues. The City has entered into various lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the capital assets acquired through capital leases as of June 30, 2012.

	<u>Capital Assets</u>
Buildings	\$ 8,664,929
Building improvements	534,589
Equipment	597,819
Land	6,952,070
Infrastructure	989,002
Vehicles	<u>2,208,054</u>
Total cost	19,946,463
Accumulated depreciation	<u>4,221,181</u>
Net book value	<u>\$ 15,725,282</u>

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2012.

Fiscal years ending June 30,	<u>Amount</u>
2013	\$ 1,687,510
2014	1,697,554
2015	1,708,289
2016	1,610,392
2017	1,625,857
2018 - 2022	6,909,418
2023 - 2027	2,224,925
2028 - 2032	<u>201,331</u>
Total minimum lease payments	17,665,276
Less amounts representing interest	<u>2,584,142</u>
Present value of future minimum lease payments	15,081,134
Less current portion	<u>1,218,660</u>
Non current portion	<u>\$ 13,862,474</u>

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 8 - General Long-Term Debt - continued

The City is the lessor of office space located in the City building. These leases are on a year to year basis with cancelable terms. The City's investment in property on operating leases and property held for lease as of June 30, 2012, is as follows:

Cost	\$ 1,500,000
Carrying amount	\$ 1,133,333
Current depreciation	\$ 50,000

Mortgage Bonds and Notes Payable

The following schedule summarizes outstanding long-term mortgage bonds and notes payable at June 30, 2012.

	<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Dates June 30,</u>	<u>Amounts</u>	
				<u>Issued</u>	<u>Outstanding</u>
Mortgage bonds					
2003 Series	Refunding	2.00-4.50%	2018	\$ 4,996,000	\$ 2,427,000
KY Infrastructure Auth.	Infrastructure	4.55%	2014	460,327	50,628
2004 Series	Pension funding	Variable	2030	14,410,000	11,960,000
2005 Series	Refunding	3.00-3.30%	2013	7,405,000	1,170,000
KY Infrastructure Auth.	Rainwater project	2.00%	2030	1,197,390	538,000
KY Bond Corp. 2010 Series A	Refinance	2.00%	2030	315,000	165,000
Recovery Zone Economic Dev Bonds	River Center	4.90-7.00%	2030	<u>2,650,000</u>	<u>2,650,000</u>
Total				<u>\$ 31,433,717</u>	<u>\$ 18,960,628</u>

Interest on the variable rate 2004 Series Pension Obligation Bonds is paid at the rate of interest determined by the Remarketing Agent, determined on a weekly basis. The rate was 0.192% at June 30, 2012.

The bonds may be called prior to maturity at rates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2012, are as follows:

<u>Fiscal years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,079,757	\$ 822,700	\$ 2,902,457
2014	1,055,036	604,293	1,659,329
2015	1,047,200	720,592	1,767,792
2016	1,050,791	674,911	1,725,702
2017	1,095,310	627,457	1,722,767
2018 - 2022	4,260,696	2,512,962	6,773,658
2023 - 2027	4,754,312	1,510,733	6,265,045
2028 - 2032	<u>3,617,526</u>	<u>323,978</u>	<u>3,941,504</u>
Totals	<u>\$ 18,960,628</u>	<u>\$ 7,797,626</u>	<u>\$ 26,758,254</u>

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 8 - General Long-Term Debt - continued

Interest Rate Swap

Objective of the Interest Rate Swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2005, the City entered into an interest rate swap in connection with its \$14.4 million 2004 Series variable-rate general obligation bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 4.56 percent. The interest rate swap is considered a hedging derivative instrument.

Terms. The bonds mature on December 1, 2029, and the related swap agreement matures on December 1, 2014. The swap's initial notional amount of \$14.4 million matched the \$14.4 million variable-rate bonds on an amortizing schedule. The swap was entered at the same time the bonds were issued (December 2004). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the City pays the counterparty a fixed payment of 4.56 percent and receives a variable payment based on the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable-rate coupons are based on a rate determined by the remarketing agent in accordance with the indenture.

Fair Value. The swap had a fair value of \$(1,174,521) as of June 30, 2012. The swap's fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase or decrease.

Credit Risk. As of June 30, 2012, the City was exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated AA by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2012.

Swap Payments and Associated Debt. For the year ended June 30, 2012, the City did not receive any payments from the agreement. Using rates as of June 30, 2012, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-Rate Bonds		Swap, Net	Total
	Principal	Interest		
Fiscal years ending June 30,				
2013	\$ 425,000	\$ 53,820	\$ 496,290	\$ 975,110
2014	445,000	51,908	477,144	974,052
2015	470,000	289,917	228,461	988,378
2016	490,000	468,950	-	958,950
2017	515,000	446,237	-	961,237
2018 - 2022	3,000,000	1,847,550	-	4,847,550
2023 - 2027	3,825,000	1,080,167	-	4,905,167
2028 - 2032	<u>2,790,000</u>	<u>193,230</u>	<u>-</u>	<u>2,983,230</u>
Totals	\$ <u>11,960,000</u>	\$ <u>4,431,779</u>	\$ <u>1,201,895</u>	\$ <u>17,593,674</u>

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 8 - General Long-Term Debt - continued

Conduit Debt Obligations

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, state, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2012, there were four series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$61.2 million.

During the year ended June 30, 2012, the following changes occurred in noncurrent liabilities:

Debt Issue	Balance July 1, 2011	Additions of New Debt	Repayments and Defeased	Balance June 30, 2012	Amounts Expected to be Paid in One Year
Mortgage bonds and notes					
2003 Refunding	\$ 2,775,000	\$ -	\$ 348,000	\$ 2,427,000	\$ 365,000
HUD 108	330,000	-	330,000	-	-
KY Infrastructure Auth.	82,531	-	31,903	50,628	33,376
2005 Refunding Bonds	2,300,000	-	1,130,000	1,170,000	1,170,000
2004 Series A	12,365,000	-	405,000	11,960,000	425,000
KIA Rainwater Harvest	561,818	-	23,818	538,000	24,296
KY Bond Corp 2010 Series A	225,000	-	60,000	165,000	62,085
Recovery zone bonds	<u>2,650,000</u>	<u>-</u>	<u>-</u>	<u>2,650,000</u>	<u>-</u>
Total mortgage bonds and notes	21,289,349	-	2,328,721	18,960,628	2,079,757
Capital lease obligations infrastructure/equipment	16,247,510	-	1,166,376	15,081,134	1,218,660
Compensated absences	<u>1,590,784</u>	<u>1,213,651</u>	<u>1,522,847</u>	<u>1,281,588</u>	<u>1,281,588</u>
Total noncurrent liabilities	<u>\$ 39,127,643</u>	<u>\$ 1,213,651</u>	<u>\$ 5,017,944</u>	<u>\$ 35,323,350</u>	<u>\$ 4,580,005</u>

Compensated absences will be liquidated by the City's general fund. Compensated absences are required to be used within one year, therefore the balance is classified as a current liability.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 9 - Risk Management

The City is exposed to various risks to loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has established a Liability Self Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Liability Self Insurance Fund provides coverage for all losses. The City purchases commercial insurance for fire and extended coverage losses.

All funds of the City participate in the program and make payments to the Liability Self Insurance Fund; however, the payments are not based on actuarial estimates of the amounts needed to pay prior and current-year claims but are intended to establish a reserve for catastrophic losses. That reserve was \$792,500 at June 30, 2012, and is a designation of the Liability Self Insurance Fund retained earnings. The claims liability reported in the Fund at June 30, 2012, is based on the requirements of governmental accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount were:

<u>July 1, 2010</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2011</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2012</u>
\$ 820,823	\$ 269,930	\$1,090,753	\$ -	\$ 1,199,357	\$ 406,857	\$ 792,500

The City has also established a Medical Self Insurance Fund. Employees may elect to participate in this program or certain other medical insurance programs offered by the City. Under this program the first \$125,000 of a participants' medical claims are payable by the Medical Self Insurance Fund. The City purchases insurance for claims in excess of coverage provided by the fund. All funds of the City participate in the program and make payments to the Medical Self Insurance Fund based on historical estimates of the amounts needed to pay prior and current year claims. The claims liability of \$993,291 reported in the fund at June 30, 2012, is based upon the requirements of governmental accounting standards, as explained above. Changes in the fund's claims liability amount during the year ended June 30, 2012, were as follows:

<u>July 1, 2010</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2011</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2012</u>
\$ 873,533	\$ 6,376,011	\$6,411,584	\$ 837,960	\$ 5,277,809	\$ 5,122,478	\$ 993,291

There have been no significant reductions in insurance coverage from the prior year.

There have been no settlements in excess of insurance coverage in the past three years.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 10 - Employee Retirement Plans

The City of Covington maintains two single employer, defined benefit pension plans: Employees' Pension Plan and Police and Firemen's Pension Plan. A separate, audited post-employment benefit plan report prepared in accordance with U.S. generally accepted accounting principles is not available for these plans.

Summary of Significant Accounting Policies

Basis of Accounting. The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. The plans issued separate financial statements which may be obtained by request from the City of Covington.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

Group	Employees' Pension Plan July 1, 2012	Police and Firemen's Pension Plan July 1, 2012
Retirees and beneficiaries currently receiving benefits	50	78
Active employees - fully vested	<u>2</u>	<u>-</u>
	<u>52</u>	<u>78</u>

Employees' Pension Plan

Plan Description. The Employees' Pension Plan is a single employer defined benefit pension plan that covers substantially all non public safety employees hired prior to April 1, 1997. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees. Benefits are provided and may be amended by City ordinance.

Contributions. Plan members are required to contribute 8% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by City ordinance. Administrative costs are financed through investment earnings.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 10 - Employee Retirement Plans - continued

Police and Firemen's Pension Plan

Plan Description. The Police and Firemen's Pension Plan is a single employer defined benefit pension plan that covers all retired police and firemen who were receiving benefits prior to August 1, 1989. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments are provided at the discretion of the Board of Trustees. Benefits are provided under Kentucky Revised Statutes (KRS) 95.852 to 95.991.

Contributions. There are no active employees contributing to the plan. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established under KRS 95.868. Administrative costs are financed through investment earnings.

Employer Contributions

Years Ended June 30,	Employees' Pension Plan			Police and Firemen's Pension Plan		
	Annual Required Contribution	Contributions Made	Percentage Contributed	Annual Required Contribution	Contributions Made	Percentage Contributed
2012	\$ 304,163	\$ -	- %	\$ 796,500	\$ -	- %
2011	\$ 304,163	\$ -	- %	\$ 342,169	\$ -	- %
2010	\$ 304,163	\$ -	- %	\$ 396,747	\$ -	- %

During the year ended June 30, 2005, the City issued Pension Obligation Bonds for the purpose of funding both Pension Plans. As a result, the City has a net pension obligation asset on the government-wide statement of net assets. As of June 30, 2012, the Plan liabilities in both the Police and Firemen's Pension Plan and the Employees' Pension Plan exceeded the assets. Therefore, the City did have an unfunded accrued liability in the Police and Firemen's Pension Plan or the Employees' Pension Plan. The City is required by state statute to contribute impounding lot income and required contributions into the Police and Firemen's Pension Plan each year.

Funded Status and Funding Progress

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
Employees' Pension Plan						
2011	\$ 4,002,169	\$ 5,363,292	\$ 1,361,123	75 %	\$ 105,615	1,289 %
2009	3,867,919	5,955,714	2,087,795	65 %	105,381	1,981 %
2007	6,650,730	6,605,645	(45,085)	101 %	114,311	N/A
Police and Firemen's Pension Plan						
2012	\$ 8,062,246	\$ 11,315,285	\$ 3,253,039	71 %	N/A	N/A
2011	9,573,902	11,003,692	1,429,790	87 %	N/A	N/A
2010	9,116,577	11,465,252	2,348,675	80 %	N/A	N/A

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 10 - Employee Retirement Plans - continued

An actuarial valuation report was not prepared as of July 1, 2010 or July 1, 2012, for the Employees' Pension Plan.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to each plan for the current year were as follows:

	Employees' Pension Plan	Police and Firemen's Pension Plan
Annual Required Contribution (ARC)	\$ 304,163	\$ 796,500
Interest on Net Pension Obligation	(97,634)	(248,418)
Adjustment to ARC	<u>321,755</u>	<u>818,669</u>
Annual Pension Cost	528,284	1,366,751
Actual Contributions Made	<u>-</u>	<u>-</u>
Increase in Net Pension Obligation	528,284	1,366,751
Net Pension Asset - beginning of year	<u>(1,301,784)</u>	<u>(3,312,238)</u>
Net Pension Asset - end of year	<u>\$ (773,500)</u>	<u>\$ (1,945,487)</u>

Three-Year Trend Information

Years Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Change in Net Pension Obligation	Balance of Net Pension Asset
Employees' Pension Plan				
June 30, 2012	\$ 528,284	- %	\$ 528,284	\$ (773,500)
June 30, 2011	638,151	- %	638,151	(1,301,784)
June 30, 2010	663,563	- %	663,562	(1,939,935)
Police and Firemen's Pension Plan				
June 30, 2012	\$ 1,366,751	- %	\$ 1,366,751	\$ (1,945,487)
June 30, 2011	1,102,176	- %	1,102,176	(3,312,238)
June 30, 2010	1,167,270	- %	1,167,270	(4,414,414)

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 10 - Employee Retirement Plans - continued

The information presented in this note was determined as part of the actuarial valuations at the dates indicated. The entry age or the projected unit credit actuarial cost method is used in the valuations. Additional information as of the latest actuarial valuation follows

	Employees' Pension Plan	Police and Firemen's Pension Plan
Valuation date	July 1, 2011	July 1, 2012
Actuarial cost method	Entry Age	Unit Credit
Amortization method	Level Percent Closed	Level Percent Closed
Remaining amortization period	Ten Years	Ten Years
Asset valuation method	Market	Market
Actuarial assumptions		
Investment rate of return *	7.5 %	7.5 %
Projected salary increases *	6.0 %	- %
* includes inflation at	- %	- %
Cost-of-living adjustments	- %	- %

County Employees Retirement System (CERS)

City employees hired subsequent to April 1, 1977, who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the state legislature.

Non-Hazardous Contributions – For the year ended June 30, 2012, plan members were required to contribute 5% (for members before September 1, 2008) and 6% (for members on or after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 10 - Employee Retirement Plans - continued

Hazardous Contributions – For the year ended June 30, 2012, plan members were required to contribute 8% (for members before September 1, 2008) and 9% (for members on or after September 1, 2008) of their annual creditable compensation. The City was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2012, participating employers contributed 35.76% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

Note 11 - Contingencies

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City is a defendant in a lawsuit. The suit was filed by an individual for development rights and damages. The suit does not specify damages however; the City's counsel has advised that the case has potential for a large judgment, up to \$300,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

The City is party to a potential action filed by the firefighters union regarding calculation of overtime pay. The union is seeking to have its members compensated for an overtime calculation over and above what was specified by the collective bargaining agreement. The parties have reached a settlement, pending approval from the labor cabinet, on the amount to be paid each firefighter. The reserve for this contingency of \$644,000 is recorded as an estimated liability for claims in the Liability Self Insurance Fund.

The City is a defendant in a lawsuit. The suit was filed by a company for wrongful death. The suit does not specify damages, however, the City's counsel has advised that the case has potential for a large judgment, up to \$100,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

A potential liability exists related to the City's medical self insurance fund for a health insurance claim that the City's stop loss insurance carrier has denied. The City and its third party administrator are challenging this determination and have joined other cities in filing suit against the insurance carrier for payment of this and similar claims. In the event the City is unsuccessful in this challenge, the claim, totaling \$1.8 million, will be paid by the City's medical self insurance fund. At this time the City cannot offer an opinion as to the probable outcome.

City of Covington, Kentucky
Notes To The Basic Financial Statements
For the Year Ended June 30, 2012

Note 11 - Contingencies - continued

Amounts grantor agencies pay to the City are subject to audit and adjustments by the grantor, principally the federal government. The grantor may require refunding by the City for any disallowed costs. Management cannot determine amounts grantors may disallow in future periods. However, based on prior experience, management believes any refunds would be immaterial to its financial statement as of June 30, 2012.

Note 12 - Subsequent Events

The Company has evaluated subsequent events for potential recognition and disclosure through December 31, 2012, the date the financial statements were available to be issued.

Note 13 - Future Accounting Pronouncements

The City plans to adopt GASB. Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, required for periods beginning after December 15, 2011. This statement establishes accounting and financial reporting requirements for service concession arrangements. Management is in the process of determining the effects that the adoption of this Statement will have on the City's financial statements.

The City plans to adopt GASB. Statement No. 61, *The Financial Reporting Entity: Omnibus-an Amendment of GASB Statements No. 14 and No. 34*, required for periods beginning after June 15, 2012. This Statement amends certain reporting entity issues related to component units and equity interests in joint ventures. Management is in the process of determining the effects that the adoption of this Statement will have on the City's financial statements.

The City plans to adopt GASB. Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, required for periods beginning after December 15, 2011. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements. Management is in the process of determining the effects that the adoption of this Statement will have on the City's financial statements.

The City plans to adopt GASB. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, required for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows and deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of financial position. Management is in the process of determining the effects that the adoption of this Statement will have on the City's financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund

Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
Taxes -				
Real property	\$ 6,112,402	\$ 6,112,402	\$ 6,073,468	\$ (38,934)
Personal property	500,000	500,000	563,891	63,891
Bank deposit	64,896	64,896	87,014	22,118
Franchise	2,337,485	2,337,485	1,944,431	(393,054)
Insurance premium	5,250,000	5,250,000	4,988,428	(261,572)
Licenses and permits -				
Payroll license fees	23,000,000	23,000,000	22,764,392	(235,608)
Net profits license fees	2,400,000	2,400,000	3,011,825	611,825
Night club permits	135,000	135,000	120,416	(14,584)
Liquor and beer licenses	150,000	150,000	144,619	(5,381)
Building and zoning	120,000	120,000	133,373	13,373
Dog licenses	8,000	8,000	685	(7,315)
Intergovernmental	2,833,000	2,833,000	1,862,791	(970,209)
Fines and forfeitures	675,000	675,000	439,189	(235,811)
Charges for services -				
Waste fees	2,322,533	2,322,533	2,342,050	19,517
Parking	1,194,000	1,194,000	1,674,834	480,834
Squad runs	1,350,000	1,350,000	1,333,724	(16,276)
Rental property	290,000	290,000	300,000	10,000
Other	1,218,528	1,220,328	412,715	(807,613)
Interest	30,000	30,000	21,948	(8,052)
Miscellaneous	<u>583,450</u>	<u>583,450</u>	<u>695,022</u>	<u>111,572</u>
Total revenues	<u>50,574,294</u>	<u>50,576,094</u>	<u>48,914,815</u>	<u>(1,661,279)</u>
EXPENDITURES				
General government -				
Administration department -				
Payroll	632,477	632,477	629,879	2,598
Employee benefits	300,221	300,221	343,620	(43,399)
Contractual services	363,839	363,839	406,402	(42,563)
Materials and supplies	27,600	27,600	28,125	(525)
Miscellaneous	<u>15,150</u>	<u>15,150</u>	<u>20,514</u>	<u>(5,364)</u>
Total administration department	<u>1,339,287</u>	<u>1,339,287</u>	<u>1,428,540</u>	<u>(89,253)</u>
Legal department -				
Payroll	233,361	243,361	269,549	(26,188)
Employee benefits	121,014	121,014	183,498	(62,484)
Contractual services	53,550	53,550	35,384	18,166
Materials and supplies	8,150	8,150	1,369	6,781
Miscellaneous	<u>9,259</u>	<u>9,259</u>	<u>8,702</u>	<u>557</u>
Total legal department	<u>425,334</u>	<u>435,334</u>	<u>498,502</u>	<u>(63,168)</u>

Note - Required Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund

Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
EXPENDITURES - continued				
Finance department -				
Payroll	\$ 566,500	\$ 566,500	\$ 537,694	\$ 28,806
Employee benefits	287,806	287,806	371,684	(83,878)
Contractual services	332,970	332,970	355,064	(22,094)
Materials and supplies	43,400	41,754	11,382	30,372
Miscellaneous	<u>2,950</u>	<u>2,950</u>	<u>4,902</u>	<u>(1,952)</u>
Total finance department	<u>1,233,626</u>	<u>1,231,980</u>	<u>1,280,726</u>	<u>(48,746)</u>
Total general governmental	<u>2,998,247</u>	<u>3,006,601</u>	<u>3,207,768</u>	<u>(201,167)</u>
Police -				
Payroll	7,981,513	8,021,513	8,192,919	(171,406)
Employee benefits	5,883,741	5,735,567	5,569,032	166,535
Contractual services	576,413	576,413	663,292	(86,879)
Materials and supplies	431,807	431,807	472,184	(40,377)
Miscellaneous	<u>6,500</u>	<u>6,500</u>	<u>5,198</u>	<u>1,302</u>
Total police	<u>14,879,974</u>	<u>14,771,800</u>	<u>14,902,625</u>	<u>(130,825)</u>
Fire -				
Payroll	6,559,877	7,059,877	7,154,219	(94,342)
Employee benefits	4,906,208	5,131,208	5,117,768	13,440
Contractual services	261,000	261,000	675,334	(414,334)
Materials and supplies	302,790	302,790	290,856	11,934
Miscellaneous	<u>4,000</u>	<u>4,000</u>	<u>3,038</u>	<u>962</u>
Total fire	<u>12,033,875</u>	<u>12,758,875</u>	<u>13,241,215</u>	<u>(482,340)</u>
Public improvements -				
Payroll	2,503,571	2,503,571	2,409,371	94,200
Employee benefits	1,736,825	1,736,825	1,566,920	169,905
Contractual services	1,021,667	870,304	1,099,575	(229,271)
Materials and supplies	893,650	893,650	814,248	79,402
Miscellaneous	<u>3,730</u>	<u>3,730</u>	<u>1,588</u>	<u>2,142</u>
Total public improvements	<u>6,159,443</u>	<u>6,008,080</u>	<u>5,891,702</u>	<u>116,378</u>
Recreation -				
Payroll	199,533	199,533	207,788	(8,255)
Employee benefits	104,354	104,354	89,313	15,041
Contractual services	162,100	162,100	138,138	23,962
Materials and supplies	34,150	34,150	39,432	(5,282)
Miscellaneous	<u>1,500</u>	<u>1,500</u>	<u>930</u>	<u>570</u>
Total recreation	<u>501,637</u>	<u>501,637</u>	<u>475,601</u>	<u>26,036</u>
Community development -				
Payroll	538,764	538,764	527,499	11,265
Employee benefits	311,834	311,834	287,990	23,844
Contractual services	2,233,411	2,293,411	2,414,207	(120,796)
Materials and supplies	18,500	18,500	16,178	2,322
Miscellaneous	<u>670,500</u>	<u>620,500</u>	<u>126,204</u>	<u>494,296</u>
Total community development	<u>3,773,009</u>	<u>3,783,009</u>	<u>3,372,078</u>	<u>410,931</u>

Note - Required Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund

Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
EXPENDITURES - continued				
Economic development -				
Payroll	\$ 329,538	\$ 261,538	\$ 310,269	\$ (48,731)
Employee benefits	190,995	178,995	161,296	17,699
Contractual services	128,930	112,230	92,014	20,216
Materials and supplies	17,000	13,700	10,416	3,284
Miscellaneous	<u>2,500</u>	<u>2,500</u>	<u>1,872</u>	<u>628</u>
Total economic development	<u>668,963</u>	<u>568,963</u>	<u>575,867</u>	<u>(6,904)</u>
 Total community development and economic development	 <u>4,441,972</u>	 <u>4,351,972</u>	 <u>3,947,945</u>	 <u>404,027</u>
 Parking garages -				
Contractual services	738,460	758,460	743,506	14,954
Materials and supplies	<u>10,700</u>	<u>10,700</u>	<u>-</u>	<u>10,700</u>
Total parking garages	<u>749,160</u>	<u>769,160</u>	<u>743,506</u>	<u>25,654</u>
Capital outlay -				
General government	<u>7,401,650</u>	<u>7,401,650</u>	<u>3,743,244</u>	<u>3,658,406</u>
Total capital outlay	<u>7,401,650</u>	<u>7,401,650</u>	<u>3,743,244</u>	<u>3,658,406</u>
 Debt service -				
Principal	1,589,048	1,589,048	2,147,521	(558,473)
Interest	<u>1,008,647</u>	<u>1,008,647</u>	<u>564,718</u>	<u>443,929</u>
Total debt service	<u>2,597,695</u>	<u>2,597,695</u>	<u>2,712,239</u>	<u>(114,544)</u>
 Total expenditures	 <u>51,763,653</u>	 <u>52,167,470</u>	 <u>48,865,845</u>	 <u>3,301,625</u>
 Excess (deficiency) of revenues over expenditures	 <u>(1,189,359)</u>	 <u>(1,591,376)</u>	 <u>48,970</u>	 <u>1,640,346</u>
 Other financing sources (uses) -				
Transfers in	3,727,866	3,797,866	1,595,013	(2,202,853)
Proceeds on sale of capital assets	-	-	5,517	5,517
Issuance of debt	4,530,000	4,530,000	-	(4,530,000)
Transfers out	<u>(6,792,502)</u>	<u>(6,717,502)</u>	<u>(3,937,681)</u>	<u>2,779,821</u>
Total other financing sources (uses)	<u>1,465,364</u>	<u>1,610,364</u>	<u>(2,337,151)</u>	<u>(3,947,515)</u>
 NET CHANGE IN FUND BALANCE	 276,005	 18,988	 (2,288,181)	 (2,307,169)
 FUND BALANCE - beginning of year	 <u>-</u>	 <u>-</u>	 <u>3,620,655</u>	 <u>(3,620,655)</u>
 FUND BALANCE - end of year	 <u>\$ 276,005</u>	 <u>\$ 18,988</u>	 <u>\$ 1,332,474</u>	 <u>\$ 1,313,486</u>

Note - Required Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Community Development Block Grant

Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,738,130	\$ 1,738,130	\$ 1,324,803	\$ (413,327)
Miscellaneous	<u>380,546</u>	<u>380,546</u>	<u>731,849</u>	<u>351,303</u>
Total revenues	<u>2,118,676</u>	<u>2,118,676</u>	<u>2,056,652</u>	<u>(62,024)</u>
EXPENDITURES				
Community development	1,335,051	1,335,051	1,558,287	(223,236)
Debt service -				
Interest and other charges	18,125	18,125	18,046	79
Capital outlay	<u>533,000</u>	<u>533,000</u>	<u>147,819</u>	<u>385,181</u>
Total expenditures	<u>1,886,176</u>	<u>1,886,176</u>	<u>1,724,152</u>	<u>162,024</u>
Excess (deficiency) of revenues over expenditures	232,500	232,500	332,500	100,000
Other financing uses -				
Transfers out	<u>(232,500)</u>	<u>(232,500)</u>	<u>(332,500)</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note - Required Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and

Actual - HOME Program

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Intergovernmental	\$ 478,185	\$ 478,185	\$ 383,590	\$ (94,595)
Investment earnings	-	-	132	132
Miscellaneous	<u>210,000</u>	<u>210,000</u>	<u>66,359</u>	<u>(143,641)</u>
Total revenues	<u>688,185</u>	<u>688,185</u>	<u>450,081</u>	<u>(238,104)</u>
EXPENDITURES				
Community development	625,185	625,185	398,606	226,579
Capital outlay	<u>63,000</u>	<u>63,000</u>	<u>51,236</u>	<u>11,764</u>
Total expenditures	<u>688,185</u>	<u>688,185</u>	<u>449,842</u>	<u>238,343</u>
Excess (deficiency) of revenues over expenditures	-	-	239	239
FUND BALANCE - beginning of year	<u>-</u>	<u>-</u>	<u>129,183</u>	<u>(129,183)</u>
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,422</u>	<u>\$ 129,422</u>

Note - Required Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Housing Voucher Program

Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 6,619,573	\$ 6,619,573	\$ 6,815,992	\$ 196,419
Investment earnings	10,000	10,000	830	(9,170)
Miscellaneous	<u>-</u>	<u>-</u>	<u>1,309</u>	<u>1,309</u>
Total revenues	6,629,573	6,629,573	6,818,131	188,558
Expenditures				
Community development	<u>6,629,573</u>	<u>6,629,573</u>	<u>6,562,044</u>	<u>67,529</u>
Excess (deficiency) of revenues over expenditures	-	-	256,087	256,087
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>1,189,385</u>	<u>(1,189,385)</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,445,472</u>	<u>\$ 1,445,472</u>

Note - Required Supplementary Information: The basis of budgeting is the same as GAAP.

OTHER SUPPLEMENTARY INFORMATION

**COMBINING FINANCIAL STATEMENTS
NON-MAJOR GOVERNMENTAL FUNDS**

City of Covington, Kentucky

Combining Balance Sheet - Non-Major Governmental Funds

June 30, 2012

	Special Revenue Funds					
	Police and Fire Incentive	Devou Park Maintenance	Devou Park Master Plan	Federal and State Grant Fund	Police Forfeiture	CAD System
ASSETS						
Cash and cash equivalents	\$ 47,116	\$ 374,812	\$ 5,356	\$ -	\$ 83,828	\$ 60,213
Receivables						
Intergovernmental	-	-	-	-	-	-
Notes	-	-	-	-	-	-
Accounts	38,183	-	589,460	200,011	-	-
Due from other funds	-	-	-	-	-	-
TOTAL ASSETS	\$ 85,299	\$ 374,812	\$ 594,816	\$ 200,011	\$ 83,828	\$ 60,213
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ 74,645	\$ 71,247	\$ 35,152	\$ -	\$ -
Accrued liabilities	-	-	-	-	-	-
Due to other funds	85,299	95,330	523,319	91,807	171	60,213
Deferred revenue	-	182,623	-	73,052	-	-
Total liabilities	<u>85,299</u>	<u>352,598</u>	<u>594,566</u>	<u>200,011</u>	<u>171</u>	<u>60,213</u>
FUND BALANCES						
Restricted for						
HUD projects	-	-	-	-	-	-
Committed for						
Devou Park maintenance	-	22,214	250	-	-	-
Police	-	-	-	-	83,657	-
Debt service	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>22,214</u>	<u>250</u>	<u>-</u>	<u>83,657</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 85,299	\$ 374,812	\$ 594,816	\$ 200,011	\$ 83,828	\$ 60,213

City of Covington, Kentucky

Combining Balance Sheet - Non-Major Governmental Funds

June 30, 2012

	Special Revenue Funds				Debt Service Funds		Non-Major Governmental Funds
	Renaissance Grant Fund	Home Consortium Fund	Homeless Prevention Fund	Neighborhood Stabilization Program	2004 Pension Obligation Bonds	2005 Refunding Bonds	
ASSETS							
Cash and cash equivalents	\$ -	\$ 40	\$ -	\$ 64	\$ 279,023	\$ 10,607	\$ 861,059
Receivables							
Intergovernmental	-	54,199	84,215	146,406	-	-	284,820
Notes	-	799,148	-	2,206,988	-	-	3,006,136
Accounts	-	-	-	-	-	-	827,654
Due from other funds	-	-	-	-	3,342	-	3,342
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 853,387</u>	<u>\$ 84,215</u>	<u>\$ 2,353,458</u>	<u>\$ 282,365</u>	<u>\$ 10,607</u>	<u>\$ 4,983,011</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 84,215	\$ 106,037	\$ 2,990	\$ -	\$ 374,286
Accrued liabilities	-	-	-	-	-	-	-
Due to other funds	-	54,239	-	40,433	-	10,607	961,418
Deferred revenue	-	799,148	-	2,206,988	-	-	3,261,811
Total liabilities	<u>-</u>	<u>853,387</u>	<u>84,215</u>	<u>2,353,458</u>	<u>2,990</u>	<u>10,607</u>	<u>4,597,515</u>
FUND BALANCES							
Restricted for							
HUD projects	-	-	-	-	-	-	-
Committed for							
Devou Park maintenance	-	-	-	-	-	-	22,464
Police	-	-	-	-	-	-	83,657
Debt service	-	-	-	-	279,375	-	279,375
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,375</u>	<u>-</u>	<u>385,496</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 853,387</u>	<u>\$ 84,215</u>	<u>\$ 2,353,458</u>	<u>\$ 282,365</u>	<u>\$ 10,607</u>	<u>\$ 4,983,011</u>

City of Covington, Kentucky

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds

Year Ended June 30, 2012

	Special Revenue Funds					
	Police and Fire Incentive	Devou Park Maintenance	Devou Park Master Plan	Federal and State Grant Fund	Police Forfeiture	CAD System
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 805,015
Intergovernmental	906,968	-	-	445,741	205,958	-
Investment earnings	-	77	-	-	80	9
Miscellaneous	-	100,620	813,925	5,000	-	-
Total revenues	<u>906,968</u>	<u>100,697</u>	<u>813,925</u>	<u>450,741</u>	<u>206,038</u>	<u>805,024</u>
EXPENDITURES						
Current						
General government	-	34,209	268,281	-	-	-
Police	444,721	-	-	-	241,432	-
Fire	465,568	-	-	135,979	-	-
Community development	-	-	-	317,556	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Capital outlay	-	74,645	529,644	-	-	-
Total expenditures	<u>910,289</u>	<u>108,854</u>	<u>797,925</u>	<u>453,535</u>	<u>241,432</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(3,321)</u>	<u>(8,157)</u>	<u>16,000</u>	<u>(2,794)</u>	<u>(35,394)</u>	<u>805,024</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	18,307	-	-	-	-
Transfers out	-	-	(15,750)	-	-	(815,547)
Total other financing sources (uses)	<u>-</u>	<u>18,307</u>	<u>(15,750)</u>	<u>-</u>	<u>-</u>	<u>(815,547)</u>
NET CHANGE IN FUND BALANCES	(3,321)	10,150	250	(2,794)	(35,394)	(10,523)
FUND BALANCES - beginning of year	<u>3,321</u>	<u>12,064</u>	<u>-</u>	<u>2,794</u>	<u>119,051</u>	<u>10,523</u>
FUND BALANCES - end of year	<u>\$ -</u>	<u>\$ 22,214</u>	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ 83,657</u>	<u>\$ -</u>

City of Covington, Kentucky

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds

Year Ended June 30, 2012

	Special Revenue Funds				Debt Service Funds		Non-Major Governmental Funds
	Renaissance Grant Fund	Home Consortium Fund	Homeless Prevention Fund	Neighborhood Stabilization Program	2004 Pension Obligation Bonds	2005 Refunding Bonds	
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 805,015
Intergovernmental	17,269	287,532	267,290	1,992,801	-	-	4,123,559
Investment earnings	-	-	-	-	8	-	174
Miscellaneous	-	34,938	-	-	-	-	954,483
Total revenues	<u>17,269</u>	<u>322,470</u>	<u>267,290</u>	<u>1,992,801</u>	<u>8</u>	<u>-</u>	<u>5,883,231</u>
EXPENDITURES							
Current							
General government	-	-	-	-	108,630	-	411,120
Police	-	-	-	-	-	-	686,153
Fire	-	-	-	-	-	-	601,547
Community development	1,361	322,470	267,290	729,003	-	-	1,637,680
Debt service							
Principal	-	-	-	-	405,000	1,130,000	1,535,000
Interest and other charges	-	-	-	-	583,811	56,971	640,782
Capital outlay	<u>37,154</u>	<u>-</u>	<u>-</u>	<u>1,263,798</u>	<u>-</u>	<u>-</u>	<u>1,905,241</u>
Total expenditures	<u>38,515</u>	<u>322,470</u>	<u>267,290</u>	<u>1,992,801</u>	<u>1,097,441</u>	<u>1,186,971</u>	<u>7,417,523</u>
Excess (deficiency) of revenues over expenditures	<u>(21,246)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,097,433)</u>	<u>(1,186,971)</u>	<u>(1,534,292)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	1,262,841	1,214,033	2,495,181
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(831,297)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,262,841</u>	<u>1,214,033</u>	<u>1,663,884</u>
NET CHANGE IN FUND BALANCES	(21,246)	-	-	-	165,408	27,062	129,592
FUND BALANCES - beginning of year	<u>21,246</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,967</u>	<u>(27,062)</u>	<u>255,904</u>
FUND BALANCES - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,375</u>	<u>\$ -</u>	<u>\$ 385,496</u>

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**INDIVIDUAL FUND SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS**

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Police and Fire Incentive

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ <u>967,000</u>	\$ <u>967,000</u>	\$ <u>906,968</u>	\$ <u>(60,032)</u>
Expenditures				
Police	476,500	476,500	444,721	31,779
Fire	<u>490,500</u>	<u>490,500</u>	<u>465,568</u>	<u>24,932</u>
Total expenditures	<u>967,000</u>	<u>967,000</u>	<u>910,289</u>	<u>56,711</u>
Excess (deficiency) of revenues over expenditures	-	-	(3,321)	(3,321)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>3,321</u>	<u>3,321</u>
Fund balance - end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Devou Park Maintenance

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Investment earnings	\$ -	\$ -	\$ 77	\$ 77
Miscellaneous	<u>100,000</u>	<u>100,000</u>	<u>100,620</u>	<u>620</u>
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>100,697</u>	<u>697</u>
Expenditures				
General government	45,000	45,000	34,209	10,791
Capital outlay	<u>80,000</u>	<u>80,000</u>	<u>74,645</u>	<u>5,355</u>
Total expenditures	<u>125,000</u>	<u>125,000</u>	<u>108,854</u>	<u>16,146</u>
Excess (deficiency) of revenues over expenditures	(25,000)	(25,000)	(8,157)	16,843
Other financing sources (uses)				
Transfers in	100,000	100,000	18,307	(81,693)
Transfers out	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>	<u>75,000</u>
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>18,307</u>	<u>(6,693)</u>
Net change in fund balance	-	-	10,150	10,150
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>12,064</u>	<u>12,064</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,214</u>	<u>\$ 22,214</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Devou Park Master Plan

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Miscellaneous	\$ <u>2,000,000</u>	\$ <u>2,000,000</u>	\$ <u>813,925</u>	\$ <u>(1,186,075)</u>
Expenditures				
General government	425,000	425,000	268,281	156,719
Capital outlay	<u>1,525,000</u>	<u>1,475,000</u>	<u>529,644</u>	<u>945,356</u>
Total expenditures	<u>1,950,000</u>	<u>1,900,000</u>	<u>797,925</u>	<u>1,102,075</u>
Excess (deficiency) of revenues over expenditures	50,000	100,000	16,000	(84,000)
Other financing sources (uses)				
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(15,750)</u>	<u>34,250</u>
Net change in fund balance	-	50,000	250	(49,750)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	\$ <u><u>-</u></u>	\$ <u><u>50,000</u></u>	\$ <u><u>250</u></u>	\$ <u><u>(49,750)</u></u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Federal and State Grant Fund

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Intergovernmental	\$ 695,000	\$ 695,000	\$ 445,741	\$ (249,259)
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total revenues	<u>700,000</u>	<u>700,000</u>	<u>450,741</u>	<u>(249,259)</u>
Expenditures				
Fire	200,000	200,000	135,979	64,021
Community development	<u>500,000</u>	<u>500,000</u>	<u>317,556</u>	<u>182,444</u>
Total expenditures	<u>700,000</u>	<u>700,000</u>	<u>453,535</u>	<u>246,465</u>
Excess (deficiency) of revenues over expenditures	-	-	(2,794)	(2,794)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>2,794</u>	<u>2,794</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Police Forfeiture

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 375,000	\$ 375,000	\$ 205,958	\$ (169,042)
Investment earnings	<u>-</u>	<u>-</u>	<u>80</u>	<u>80</u>
Total revenues	375,000	375,000	206,038	(168,962)
Expenditures				
Police	<u>375,000</u>	<u>375,000</u>	<u>241,432</u>	<u>133,568</u>
Excess (deficiency) of revenues over expenditures	-	-	(35,394)	(35,394)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>119,051</u>	<u>119,051</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,657</u>	<u>\$ 83,657</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - CAD System

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Taxes	\$ 824,000	\$ 824,000	\$ 805,015	\$ (18,985)
Investment earnings	<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>
Total revenues	824,000	824,000	805,024	(18,976)
Other financing sources (uses)				
Transfers out	<u>(824,000)</u>	<u>(824,000)</u>	<u>(815,547)</u>	<u>8,453</u>
Net change in fund balance	-	-	(10,523)	(10,523)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>10,523</u>	<u>10,523</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Renaissance Grant Fund

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Intergovernmental	\$ <u>500,000</u>	\$ <u>500,000</u>	\$ <u>17,269</u>	\$ <u>(482,731)</u>
Expenditures				
Community development	-	-	1,361	(1,361)
Capital outlay	<u>500,000</u>	<u>500,000</u>	<u>37,154</u>	<u>462,846</u>
Total expenditures	<u>500,000</u>	<u>500,000</u>	<u>38,515</u>	<u>461,485</u>
Excess (deficiency) of revenues over expenditures	-	-	(21,246)	(21,246)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>21,246</u>	<u>21,246</u>
Fund balance - end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Home Consortium Fund

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Intergovernmental	\$ 346,542	\$ 346,542	\$ 287,532	\$ (59,010)
Miscellaneous	<u>-</u>	<u>-</u>	<u>34,938</u>	<u>34,938</u>
Total revenues	346,542	346,542	322,470	(24,072)
Expenditures				
Community development	<u>346,542</u>	<u>346,542</u>	<u>322,470</u>	<u>24,072</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Homeless Prevention Fund

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Intergovernmental	\$ 361,087	\$ 361,087	\$ 267,290	\$ (93,797)
Expenditures				
Community development	<u>361,087</u>	<u>361,087</u>	<u>267,290</u>	<u>93,797</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Neighborhood Stabilization Program

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Intergovernmental	\$ <u>3,855,000</u>	\$ <u>3,855,000</u>	\$ <u>1,992,801</u>	\$ <u>(1,862,199)</u>
Expenditures				
Community development	1,220,000	1,220,000	729,003	490,997
Capital outlay	<u>2,335,000</u>	<u>2,335,000</u>	<u>1,263,798</u>	<u>1,071,202</u>
Total expenditures	<u>3,555,000</u>	<u>3,555,000</u>	<u>1,992,801</u>	<u>1,562,199</u>
Excess (deficiency) of revenues over expenditures	300,000	300,000	-	(300,000)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	\$ <u>300,000</u>	\$ <u>300,000</u>	\$ <u>-</u>	\$ <u>(300,000)</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - 2004 Pension Obligation Bonds

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Investment earnings	\$ -	\$ -	\$ 8	\$ 8
Expenditures				
General government	75,000	75,000	108,630	(33,630)
Debt service -				
Principal	385,000	385,000	405,000	(20,000)
Interest and other charges	<u>779,870</u>	<u>779,870</u>	<u>583,811</u>	<u>196,059</u>
Total expenditures	<u>1,239,870</u>	<u>1,239,870</u>	<u>1,097,441</u>	<u>142,429</u>
Excess (deficiency) of revenues over expenditures	(1,239,870)	(1,239,870)	(1,097,433)	142,437
Other financing sources (uses)				
Transfers in	<u>1,270,886</u>	<u>1,270,886</u>	<u>1,262,841</u>	<u>(8,045)</u>
Net change in fund balance	31,016	31,016	165,408	134,392
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>113,967</u>	<u>113,967</u>
Fund balance - end of year	<u>\$ 31,016</u>	<u>\$ 31,016</u>	<u>\$ 279,375</u>	<u>\$ 248,359</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - 2005 Refunding Bonds

For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Expenditures				
Debt service -				
Principal	\$ 1,095,000	\$ 1,095,000	\$ 1,130,000	\$ (35,000)
Interest and other charges	<u>91,760</u>	<u>91,760</u>	<u>56,971</u>	<u>34,789</u>
Total expenditures	<u>1,186,760</u>	<u>1,186,760</u>	<u>1,186,971</u>	<u>(211)</u>
Excess (deficiency) of revenues over expenditures	(1,186,760)	(1,186,760)	(1,186,971)	(211)
Other financing sources (uses)				
Transfers in	<u>1,220,000</u>	<u>1,220,000</u>	<u>1,214,033</u>	<u>(5,967)</u>
Net change in fund balance	33,240	33,240	27,062	(6,178)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>(27,062)</u>	<u>(27,062)</u>
Fund balance - end of year	<u>\$ 33,240</u>	<u>\$ 33,240</u>	<u>\$ -</u>	<u>\$ (33,240)</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

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**COMBINING FINANCIAL STATEMENTS
PROPRIETARY FUNDS**

City of Covington, Kentucky
Combining Statement of Net Assets - Internal Service Funds
June 30, 2012

	<u>Internal Service Funds</u>		
	Liability Insurance	Medical and Dental Insurance	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 366,074	\$ 702,419	\$ 1,068,493
Due from other funds	<u>851,667</u>	<u>296,772</u>	<u>1,148,439</u>
Total assets	<u>1,217,741</u>	<u>999,191</u>	<u>2,216,932</u>
LIABILITIES			
Current liabilities			
Accounts payable	163,382	4,048	167,430
Estimated liability for claims	<u>792,500</u>	<u>993,291</u>	<u>1,785,791</u>
Total liabilities	<u>955,882</u>	<u>997,339</u>	<u>1,953,221</u>
NET ASSETS			
Unrestricted	\$ <u>261,859</u>	\$ <u>1,852</u>	\$ <u>263,711</u>

City of Covington, Kentucky

Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets - Internal Service Funds

Year Ended June 30, 2012

	Internal Service Funds		
	Liability Insurance	Medical and Dental Insurance	Total
OPERATING REVENUES			
Insurance premium payments	\$ -	\$ 5,803,748	\$ 5,803,748
Other operating revenues	<u>150</u>	<u>420,328</u>	<u>420,478</u>
Total operating revenues	<u>150</u>	<u>6,224,076</u>	<u>6,224,226</u>
OPERATING EXPENSES			
Contractual services	167,530	525,515	693,045
Claims and judgments	<u>1,199,357</u>	<u>5,277,809</u>	<u>6,477,166</u>
Total operating expenses	<u>1,366,887</u>	<u>5,803,324</u>	<u>7,170,211</u>
OPERATING INCOME (LOSS)	(1,366,737)	420,752	(945,985)
NON-OPERATING REVENUES			
Investment income	<u>41</u>	<u>230</u>	<u>271</u>
Income (loss) before transfers	(1,366,696)	420,982	(945,714)
Transfers in	1,442,500	-	1,442,500
Transfers out	<u>-</u>	<u>(431,216)</u>	<u>(431,216)</u>
CHANGE IN NET ASSETS	75,804	(10,234)	65,570
NET ASSETS - beginning of year	<u>186,055</u>	<u>12,086</u>	<u>198,141</u>
NET ASSETS - end of year	<u>\$ 261,859</u>	<u>\$ 1,852</u>	<u>\$ 263,711</u>

City of Covington, Kentucky
Combining Statement of Cash Flows - Internal Service Funds
Year Ended June 30, 2012

	Internal Service Funds		
	Liability Insurance	Medical and Dental Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$ -	\$ 5,900,917	\$ 5,900,917
Cash received from other activities	150	420,328	420,478
Cash paid for claims	<u>(479,082)</u>	<u>(5,657,129)</u>	<u>(6,136,211)</u>
Net cash flows from operating activities	(478,932)	664,116	185,184
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers from other funds	844,588	-	844,588
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>41</u>	<u>230</u>	<u>271</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	365,697	664,346	1,030,043
CASH AND CASH EQUIVALENTS - beginning of year	<u>377</u>	<u>38,073</u>	<u>38,450</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 366,074</u>	<u>\$ 702,419</u>	<u>\$ 1,068,493</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ (1,366,737)	\$ 420,752	\$ (945,985)
Change in operating assets and liabilities -			
Accounts receivable	-	186,350	186,350
Due from other funds	-	(89,181)	(89,181)
Accounts payable	95,305	(9,136)	86,169
Estimated liability for claims	<u>792,500</u>	<u>155,331</u>	<u>947,831</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (478,932)</u>	<u>\$ 664,116</u>	<u>\$ 185,184</u>

INDIVIDUAL FUND SCHEDULES
PROPRIETARY FUNDS

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Net Assets - Budget and Actual - Liability Insurance

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Operating revenues				
Other operating revenues	\$ -	\$ -	\$ 150	\$ 150
Operating expenses				
Contractual services	160,000	160,000	167,530	(7,530)
Claims and judgments	<u>440,000</u>	<u>440,000</u>	<u>1,199,357</u>	<u>(759,357)</u>
Total operating expenses	<u>600,000</u>	<u>600,000</u>	<u>1,366,887</u>	<u>(766,887)</u>
Operating loss	(600,000)	(600,000)	(1,366,737)	(766,737)
Non-operating revenues				
Investment income	<u>-</u>	<u>-</u>	<u>41</u>	<u>41</u>
Loss before transfers	(600,000)	(600,000)	(1,366,696)	(766,696)
Transfers in	<u>650,000</u>	<u>650,000</u>	<u>1,442,500</u>	<u>792,500</u>
Change in net assets	50,000	50,000	75,804	25,804
Net assets - beginning of year	<u>-</u>	<u>-</u>	<u>186,055</u>	<u>186,055</u>
Net assets - end of year	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 261,859</u>	<u>\$ 211,859</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

City of Covington, Kentucky

Schedule of Revenues, Expenditures and Changes in Fund Net Assets - Budget and Actual - Medical and Dental Insurance

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Operating revenues				
Insurance premium payments	\$ 6,600,000	\$ 6,600,000	\$ 5,803,748	\$ (796,252)
Other operating revenues	<u>-</u>	<u>-</u>	<u>420,328</u>	<u>420,328</u>
Total operating revenues	<u>6,600,000</u>	<u>6,600,000</u>	<u>6,224,076</u>	<u>(375,924)</u>
Operating expenses				
Contractual services	469,835	469,835	525,515	(55,680)
Claims and judgments	<u>6,130,165</u>	<u>6,130,165</u>	<u>5,277,809</u>	<u>852,356</u>
Total operating expenses	<u>6,600,000</u>	<u>6,600,000</u>	<u>5,803,324</u>	<u>796,676</u>
Operating income	-	-	420,752	420,752
Non-operating revenues				
Investment income	<u>-</u>	<u>-</u>	<u>230</u>	<u>230</u>
Income before transfers	-	-	420,982	420,982
Transfers out	<u>-</u>	<u>-</u>	<u>(431,216)</u>	<u>(431,216)</u>
Change in net assets	-	-	(10,234)	(10,234)
Net assets - beginning of year	<u>-</u>	<u>-</u>	<u>12,086</u>	<u>12,086</u>
Net assets - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,852</u>	<u>\$ 1,852</u>

Note - Other Supplementary Information: The basis of budgeting is the same as GAAP.

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STATISTICAL SECTION

City of Covington, Kentucky

Statistical Section

Narrative and Contents

June 30, 2012

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding this year's financial statements, note disclosures, and supplementary information. This information is unaudited.

Contents

Financial Trends

These tables contain trend information that may assist the reader in assessing the City's current financial performance by placing it in historical perspective.

Revenue Capacity

These tables contain information that may assist the reader in assessing the viability of the City's most significant "own-source" revenue source, property taxes.

Debt Capacity

These tables present information that may assist the reader in analyzing the affordability of the County's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These tables present demographic and economic information intended (1) to assist users in understanding the socioeconomic environment within which the City operates and (2) to provide information that facilitates comparisons of financial statement information over time and among cities.

Operating Information

These tables contain service and infrastructure indicators that can inform one's understanding how the information in the City's financial statements relates to the services the City provides and the activities it performs.

Data Source:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the applicable year. The City implemented GASB Statement No. 34 in fiscal year 2003 therefore tables presenting government-wide financial data include only nine years of information.

City of Covington, Kentucky
Net Assets by Component, Last Ten Years
(accrual basis of accounting)

Schedule 1

	2003	2004	2005	2006	2007	2008	2009	2010	2011 (as restated)	2012
Governmental										
Activities/Primary										
Government										
Invested in capital assets, net of related debt	\$ (2,888,790)	\$ 4,519,630	\$ 41,483,876	\$ 40,851,867	\$ 39,709,313	\$ 41,334,965	\$ 36,577,167	\$ 34,539,885	\$ 36,088,303	\$ 34,173,497
Restricted for capital projects	-	-	-	-	-	-	-	-	1,577,223	190,681
Restricted for HUD Programs	-	-	-	-	-	-	-	-	15,837,661	16,648,464
Restricted for police incentive pay	-	-	-	-	-	-	-	-	3,321	-
Restricted for grant programs	-	-	-	-	-	-	-	-	24,040	-
Restricted	1,943,882	1,943,252	1,593,846	1,307,719	888,123	550,682	193,693	91,138	-	-
Unrestricted	<u>22,540,375</u>	<u>15,614,883</u>	<u>1,947,609</u>	<u>15,104,828</u>	<u>17,286,863</u>	<u>16,603,105</u>	<u>16,638,487</u>	<u>13,587,660</u>	<u>(5,585,863)</u>	<u>(4,806,437)</u>
Total governmental activities net assets	<u>\$ 21,595,467</u>	<u>\$ 22,077,765</u>	<u>\$ 45,025,331</u>	<u>\$ 57,264,414</u>	<u>\$ 57,884,299</u>	<u>\$ 58,488,752</u>	<u>\$ 53,409,347</u>	<u>\$ 48,218,683</u>	<u>\$ 47,944,685</u>	<u>\$ 46,206,205</u>

Note: The City implemented GASB Statement 34 in fiscal year 2003 and GASB Statement 54 in fiscal year 2011.

City of Covington, Kentucky
Changes in Net Assets, Last Ten Years
(accrual basis of accounting)

Schedule 2

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Program revenues										
Governmental activities										
General government	\$ 1,737,441	\$ 1,928,888	\$ 761,041	\$ 1,215,111	\$ 1,096,558	\$ 1,145,333	\$ 993,267	\$ 1,136,249	\$ 968,682	\$ 936,996
Police	516,097	344,287	-	372,192	331,579	382,318	406,557	412,722	307,539	189,671
Fire	510,848	546,276	987,802	912,526	1,073,548	1,084,825	1,077,448	1,282,105	1,175,621	1,333,724
Public improvements	1,373,968	1,154,023	1,092,970	1,226,952	1,170,789	1,464,056	1,859,171	1,918,838	2,082,635	2,342,050
Recreation	39,525	90,465	-	-	-	-	-	-	-	22,753
Community development	1,312,485	-	-	56,017	114,177	41,860	37,833	79,317	98,196	169,209
Parking garage	-	-	1,252,755	1,059,369	1,041,332	1,120,916	1,143,276	1,179,276	1,458,784	1,674,834
Interest on long-term debt	-	1,194,146	-	-	-	-	-	-	-	-
Operating grants and contributions	9,114,414	9,218,291	8,754,883	9,652,316	8,840,224	10,823,567	9,664,170	10,727,972	13,533,951	12,518,909
Capital grants and contributions	799,478	902,562	3,106,704	716,322	1,279,884	2,050,654	1,650,920	1,624,312	2,558,805	1,647,156
Total governmental activities revenues	<u>15,404,256</u>	<u>15,378,938</u>	<u>15,956,155</u>	<u>15,210,805</u>	<u>14,948,091</u>	<u>18,113,529</u>	<u>16,832,642</u>	<u>18,360,791</u>	<u>22,184,213</u>	<u>20,835,302</u>
Expenses										
Governmental activities										
General government	4,822,043	3,939,011	9,381,965	7,781,587	6,975,709	7,807,872	12,149,528	6,089,518	3,814,055	4,250,735
Police	12,712,976	13,582,260	13,660,495	14,482,761	14,873,868	15,501,195	15,593,684	16,498,516	16,536,402	16,455,964
Fire	10,328,208	11,286,851	11,930,245	12,512,512	13,595,531	14,753,208	14,224,985	15,048,966	15,318,421	15,180,999
Public improvements	7,440,215	8,020,228	5,561,622	5,324,831	6,001,968	5,995,347	7,185,210	11,847,116	11,780,808	11,349,786
Recreation	787,164	1,045,289	2,575,568	2,325,250	2,350,546	2,426,639	2,740,960	796,215	734,672	711,584
Community development	10,876,935	9,825,619	9,086,241	9,817,626	9,345,867	9,777,154	10,217,357	12,484,045	13,771,124	15,379,018
Parking garage	743,982	809,425	803,715	727,419	734,401	747,677	701,986	732,362	865,947	768,661
Interest on long-term debt	<u>1,605,271</u>	<u>1,171,229</u>	<u>1,437,434</u>	<u>1,919,888</u>	<u>1,872,816</u>	<u>1,935,242</u>	<u>2,052,549</u>	<u>1,716,153</u>	<u>1,676,776</u>	<u>1,324,845</u>
Total governmental activities expenses	<u>49,316,794</u>	<u>49,679,912</u>	<u>54,437,285</u>	<u>54,891,874</u>	<u>55,750,706</u>	<u>58,944,334</u>	<u>64,866,259</u>	<u>65,212,891</u>	<u>64,498,205</u>	<u>65,421,592</u>
Total net revenue (expense)	<u>(33,912,538)</u>	<u>(34,300,974)</u>	<u>(38,481,130)</u>	<u>(39,681,069)</u>	<u>(40,802,615)</u>	<u>(40,830,805)</u>	<u>(48,033,617)</u>	<u>(46,852,100)</u>	<u>(42,313,992)</u>	<u>(44,586,290)</u>

City of Covington, Kentucky
Changes in Net Assets, Last Ten Years
(accrual basis of accounting)

Schedule 2 (continued)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General revenues and other changes in net assets										
Governmental activities										
Taxes										
Real property taxes, levied for general purposes	\$ 5,094,960	\$ 4,945,540	\$ 4,399,593	\$ 5,913,401	\$ 5,590,772	\$ 4,680,355	\$ 6,024,885	\$ 6,114,035	\$ 6,481,511	\$ 6,141,332
Personal property taxes, levied for general purposes	679,089	474,360	496,286	589,401	553,057	601,109	653,748	557,999	516,905	796,259
Public service taxes	2,078,467	1,892,053	1,909,267	2,092,335	1,978,504	2,178,804	2,140,821	2,085,706	2,107,927	1,944,431
Taxes, levied for bank deposits	74,272	102,802	62,323	62,232	59,042	67,789	53,161	60,603	71,391	87,014
Insurance premium taxes	4,746,726	4,909,972	5,240,743	5,324,223	5,242,337	4,860,194	5,430,628	5,588,067	5,155,801	4,988,428
Payroll taxes	17,683,867	18,319,549	19,543,654	21,263,831	21,656,929	23,287,559	23,697,247	22,850,229	22,595,598	22,764,392
Net profit taxes	1,993,189	2,590,933	2,303,123	2,554,150	2,959,729	2,779,489	2,555,089	2,285,504	2,404,497	3,011,825
Other taxes	351,664	376,845	358,751	490,889	552,641	647,217	790,752	796,091	840,953	805,015
Investment earnings	186,286	132,820	228,382	310,239	389,885	317,416	112,064	25,094	47,503	23,084
Fines and forfeitures	-	-	444,832	-	-	-	-	-	-	-
Licenses and permits	-	-	367,376	-	-	-	-	-	-	-
Commissions	-	-	-	-	-	-	-	-	-	-
Special item - gain on sale of capital asset	-	-	-	576,242	214,010	-	-	-	-	-
Miscellaneous	20,047,710	1,038,363	1,878,640	1,710,802	2,225,594	2,015,326	1,495,817	1,298,108	1,817,908	2,286,030
Transfers	(345,200)	-	(14,275,000)	-	-	-	-	-	-	-
Total governmental revenues and transfers	<u>52,591,030</u>	<u>34,783,237</u>	<u>22,957,970</u>	<u>40,887,745</u>	<u>41,422,500</u>	<u>41,435,258</u>	<u>42,954,212</u>	<u>41,661,436</u>	<u>42,039,994</u>	<u>42,847,810</u>
Change in net assets										
Primary governmental activities	<u>\$ 18,678,492</u>	<u>\$ 482,263</u>	<u>\$ (15,523,160)</u>	<u>\$ 1,206,676</u>	<u>\$ 619,885</u>	<u>\$ 604,453</u>	<u>\$ (5,079,405)</u>	<u>\$ (5,190,664)</u>	<u>\$ (273,998)</u>	<u>\$ (1,738,480)</u>

Note: The city implemented GASB Statement 34 in fiscal year 2003.

City of Covington, Kentucky
Changes in Fund Balances, Governmental Funds, Last Ten Years
(modified accrual basis of accounting)

Schedule 3

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund										
Reserved	\$ -	\$ -	\$ 5,388	\$ 122,892	\$ 1,611	\$ 4,483	\$ 41,414	\$ -	\$ -	\$ -
Unreserved	<u>920,556</u>	<u>291,457</u>	<u>229,739</u>	<u>550,513</u>	<u>675,320</u>	<u>735,839</u>	<u>730,555</u>	<u>342,498</u>	<u>-</u>	<u>-</u>
Total general fund	<u>920,556</u>	<u>291,457</u>	<u>235,127</u>	<u>673,405</u>	<u>676,931</u>	<u>740,322</u>	<u>771,969</u>	<u>342,498</u>	<u>-</u>	<u>-</u>
All other governmental funds										
Reserved	-	-	-	-	-	-	-	-	-	-
Unreserved, reported in										
Special revenue funds	3,439,783	2,578,865	1,207,276	810,353	3,713,572	4,296,812	4,821,080	4,007,906	-	-
Capital projects funds	-	-	-	-	469,730	91,947	158,251	(12,984)	-	-
Debt service funds	4,053,087	3,745,979	1,593,846	1,307,719	888,123	550,682	193,693	91,138	-	-
Non-spendable										
Prepaid expenses	-	-	-	-	-	-	-	-	-	98,617
Restricted for										
Capital projects	-	-	-	-	-	-	-	-	1,577,223	190,681
HUD Programs	-	-	-	-	-	-	-	-	1,318,568	1,574,894
Police incentive fund	-	-	-	-	-	-	-	-	3,321	-
Grant programs	-	-	-	-	-	-	-	-	24,040	-
Committed for										
Devou Park maintenance	-	-	-	-	-	-	-	-	12,064	22,464
Police	-	-	-	-	-	-	-	-	119,051	83,657
CAD System	-	-	-	-	-	-	-	-	10,523	-
Debt service	-	-	-	-	-	-	-	-	113,967	279,375
Assigned for										
Community development	-	-	-	-	-	-	-	-	884,282	-
Budget deficit	-	-	-	-	-	-	-	-	202,358	-
City building operations	-	-	-	-	-	-	-	-	73,211	-
Capital projects	-	-	-	-	-	-	-	-	185,190	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>671,329</u>	<u>1,043,176</u>
Total all other governmental funds	<u>\$ 7,492,870</u>	<u>\$ 6,324,844</u>	<u>\$ 2,801,122</u>	<u>\$ 2,118,072</u>	<u>\$ 5,071,425</u>	<u>\$ 4,939,441</u>	<u>\$ 5,173,024</u>	<u>\$ 4,086,060</u>	<u>\$ 5,195,127</u>	<u>\$ 3,292,864</u>

Note: The City implemented GASB Statement 54 in fiscal year 2011.

City of Covington, Kentucky

Changes in Fund Balances, Governmental Funds, Last Ten Years

(modified accrual basis of accounting)

Schedule 4

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 12,104,042	\$ 12,395,102	\$ 12,762,470	\$ 13,466,713	\$ 13,554,260	\$ 13,682,151	\$ 14,707,297	\$ 14,987,054	\$ 14,643,134	\$ 14,462,247
Licenses and permits	20,028,720	21,287,327	22,214,153	24,123,130	24,897,197	26,357,476	26,550,329	25,429,776	25,362,255	26,175,310
Intergovernmental	9,913,892	10,120,853	9,636,936	10,345,557	11,204,089	12,063,637	11,691,463	12,166,647	13,684,242	14,510,735
Charges for services	4,721,842	4,745,670	4,094,568	4,128,721	4,104,170	4,527,680	4,744,058	5,227,073	5,394,348	6,063,323
Fines and forfeitures	447,020	478,752	444,832	603,286	711,786	669,260	712,072	746,322	558,465	439,189
Investment earnings	186,286	123,538	223,704	278,531	330,536	270,519	99,619	24,439	47,244	23,084
Miscellaneous	2,656,223	1,539,153	4,109,294	1,734,234	2,342,372	2,382,312	1,557,868	1,351,353	2,004,920	2,449,022
Total revenues	<u>50,058,025</u>	<u>50,690,395</u>	<u>53,485,957</u>	<u>54,680,172</u>	<u>57,144,410</u>	<u>59,953,035</u>	<u>60,062,706</u>	<u>59,932,664</u>	<u>61,694,608</u>	<u>64,122,910</u>
Expenditures										
Current										
General government	3,558,293	3,366,630	3,365,074	3,537,750	3,092,518	3,554,133	3,783,523	3,785,714	4,315,649	3,618,888
Police	11,913,958	12,833,125	13,239,562	14,109,828	14,359,432	15,013,636	14,886,861	15,593,494	15,913,878	15,588,778
Fire	9,947,813	10,800,154	11,429,099	12,168,065	12,989,464	13,959,222	13,306,319	13,812,934	13,630,059	13,842,762
General service	7,105,526	7,761,571	5,358,833	5,180,111	5,292,360	5,644,983	6,690,503	6,514,905	6,268,883	5,891,702
Recreation	737,049	717,870	2,372,300	2,289,413	2,309,959	2,347,048	2,533,103	504,309	455,212	475,601
Community development	10,831,082	9,778,417	9,096,233	9,832,881	9,098,909	9,771,182	10,138,570	12,175,797	13,075,265	14,104,562
Parking garage	743,982	809,425	803,715	727,419	734,401	747,677	701,986	732,362	865,947	743,506
Debt service										
Principal retirement	12,325,046	7,665,518	5,553,494	2,763,879	2,727,985	2,918,585	3,516,517	2,980,841	3,131,379	3,682,521
Interest and other charges	1,605,271	1,464,763	1,509,839	1,965,386	1,701,223	1,829,031	2,054,516	1,679,854	1,503,485	1,223,546
Capital outlay	6,247,041	3,082,026	6,722,898	2,701,215	3,257,621	4,159,916	6,715,050	4,982,528	4,300,102	5,847,540
Total expenditures	<u>65,015,061</u>	<u>58,279,499</u>	<u>59,451,047</u>	<u>55,275,947</u>	<u>55,563,872</u>	<u>59,945,413</u>	<u>64,326,948</u>	<u>62,762,738</u>	<u>63,459,859</u>	<u>65,019,406</u>
Excess (deficiency) of revenues over expenditures	<u>(14,957,036)</u>	<u>(7,589,104)</u>	<u>(5,965,090)</u>	<u>(595,775)</u>	<u>1,580,538</u>	<u>7,622</u>	<u>(4,264,242)</u>	<u>(2,830,074)</u>	<u>(1,765,251)</u>	<u>(896,496)</u>

City of Covington, Kentucky
Changes in Fund Balances, Governmental Funds, Last Ten Years
(modified accrual basis of accounting)

Schedule 4 (continued)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Other financing sources (uses)										
Proceeds from issuance of debt	\$ 12,809,056	\$ 840,944	\$ 12,806,241	\$ -	\$ 1,630,000	\$ -	\$ 4,509,181	\$ -	\$ 2,806,827	\$ -
Proceeds from bond refinancing	-	4,996,000	-	-	-	-	-	-	315,000	-
Payment to refunded lease escrow agent	-	-	-	-	-	-	-	-	(303,694)	-
Bond issuance costs	-	-	-	-	-	-	-	-	(59,623)	-
Transfers in	2,766,134	3,006,160	11,506,504	6,006,833	6,169,710	5,377,180	6,063,518	6,028,123	3,565,394	4,090,194
Transfers out	(3,111,334)	(3,051,160)	(25,926,704)	(6,252,032)	(6,663,029)	(5,881,142)	(6,747,200)	(6,228,123)	(3,865,395)	(5,101,478)
Proceeds from short-term debt	-	-	-	596,202	-	427,747	75,419	1,040,563	-	(1,534)
Proceeds from sale of capital assets	-	-	(1,003)	-	-	-	-	-	13,647	5,517
Total other financing sources (uses)	<u>12,463,856</u>	<u>5,791,944</u>	<u>(1,614,962)</u>	<u>351,003</u>	<u>1,136,681</u>	<u>(76,215)</u>	<u>3,900,918</u>	<u>840,563</u>	<u>2,472,156</u>	<u>(1,007,301)</u>
Special Item										
Proceeds from sale of capital assets	-	-	-	-	239,660	-	628,554	532,740	-	-
Net change in fund balances	<u>\$ (2,493,180)</u>	<u>\$ (1,797,160)</u>	<u>\$ (7,580,052)</u>	<u>\$ (244,772)</u>	<u>\$ 2,956,879</u>	<u>\$ (68,593)</u>	<u>\$ 265,230</u>	<u>\$ (1,456,771)</u>	<u>\$ 706,905</u>	<u>\$ (1,903,797)</u>
Debt service as a percentage of noncapital expenditures	<u>23.70 %</u>	<u>16.54 %</u>	<u>13.40 %</u>	<u>9.00 %</u>	<u>8.47 %</u>	<u>8.51 %</u>	<u>9.67 %</u>	<u>8.07 %</u>	<u>7.83 %</u>	<u>8.16 %</u>

Note: With the implementation of GASB statement 34 in fiscal year 2003, classification of revenue and expenditure by category were revised and not restated for earlier fiscal years

City of Covington, Kentucky
Occupational License Fees - Payroll Withholding
Last Ten Years

Schedule 5

Fiscal Year	Total Gross Taxable Wages	Total Withholding Fees	Total Direct Rate
2003	\$ 707,354,680	\$ 17,683,867	0.025 %
2004	732,781,960	18,319,549	0.025 %
2005	781,746,160	19,543,654	0.025 %
2006	850,553,240	21,263,831	0.025 %
2007	866,277,160	21,656,929	0.025 %
2008	931,502,360	23,287,559	0.025 %
2009	947,889,880	23,697,247	0.025 %
2010	914,009,160	22,850,229	0.025 %
2011	903,823,920	22,595,598	0.025 %
2012	910,575,680	22,764,392	0.025 %

Notes: There has been no change in tax rate since adoption in 1966

City of Covington, Kentucky
Principal Occupational Payroll Tax Payers
Current Year and Nine Years Ago

Schedule 6

Taxpayer	
2012	2003
A. C. Nielsen	A. C. Nielsen
Atkins & Pearce	Atkins & Pearce
Club Chef	Commonwealth of Kentucky
Commonwealth of Kentucky	Covington Board of Education
Covington Board of Education	Duro Bag
Fidelity Investments	Fidelity Investments
Internal Revenue Service	Internal Revenue Service
Omnicare	No. Ky. Mental Health and Retardation Board
Rosedale Manor	Rosedale Manor
St. Elizabeth Hospital	St. Elizabeth Hospital

Notes: Taxpayer information is listed alphabetically.

Source: City of Covington Finance Department

City of Covington, Kentucky

Principal Property Tax Payers

Last Ten Fiscal Years

Schedule 7

Fiscal Year	Real Property	Personal Property	Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2003	\$ 1,554,730	\$ 179,132	\$ 57,688	\$ 1,676,174	0.299 %
2004	1,600,532	155,966	58,542	1,697,956	0.299 %
2005	1,617,670	160,191	57,720	1,720,141	0.299 %
2006	1,687,690	203,668	57,570	1,833,788	0.299 %
2007	1,828,664	195,876	58,296	1,966,244	0.284 %
2008	1,861,435	187,585	61,243	1,987,777	0.292 %
2009	1,897,368	217,242	59,898	2,054,712	0.299 %
2010	2,014,385	159,294	62,311	2,111,368	0.299 %
2011	2,027,907	168,468	61,769	2,134,606	0.299 %
2012	2,019,671	156,875	65,087	2,111,459	0.299 %

Notes: Property in Covington is reassessed once every four years. City property was reassessed in 2011. The next reassessment will occur in 2015. The reassessment is conducted by the Kenton County Property Value Administrator. The property is assessed at 100% of value.

Values are stated in thousands of dollars

Tax rates are per \$100 of assessed value.

City of Covington, Kentucky
Direct and Overlapping Property Tax Rates
Last Ten Years

Schedule 8

Fiscal Year	City Direct Rate	School Districts		County	State	Other	Totals	
		Covington Independent	Kenton County				Covington Schools Area	Kenton County Schools Area
2003	0.2990 %	0.894 %	0.548 %	0.1310 %	0.133 %	0.1150 %	1.5720 %	1.2260 %
2004	0.2990	0.925	0.558	0.1350	0.131	0.1320	1.6220	1.2550
2005	0.2990	0.942	0.556	0.1360	0.131	0.1350	1.6430	1.2570
2006	0.2990	0.922	0.556	0.1380	0.128	0.1410	1.6132	1.2472
2007	0.2842	0.961	0.564	0.1410	0.124	0.1488	1.6590	1.2620
2008	0.2924	0.961	0.564	0.1420	0.124	0.1488	1.6682	1.2712
2009	0.2995	0.989	0.558	0.1420	0.122	0.1530	1.7055	1.2745
2010	0.2995	1.026	0.558	0.1480	0.122	0.1650	1.7605	1.2925
2011	0.2995	1.056	0.557	0.1480	0.122	0.1740	1.7995	1.3005
2012	0.2995	1.117	0.557	0.1480	0.122	0.1720	1.8585	1.2985

Notes: Portions of the City of Covington are located in Kenton County Common School District and pay taxes to that entity instead of Covington Independent School District. Consequently both rates are shown.

The City's basic property tax may be increased up to the compensating rate plus 4% without being subject to a voter referendum. The compensating rate is defined as that rate which when applied to the current year's assessment of property subject to taxation excluding new property and personal property produces an amount of revenue equal to that produced in the preceding year.

City of Covington, Kentucky
Direct and Overlapping Governmental Activities Debt
June 30, 2012
(amounts in thousands)

Schedule 9

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable⁽³⁾	Estimated Share of Overlapping Debt
Kenton County	\$ 85,192 ⁽¹⁾	25.44 %	\$ 21,673
Covington Independent School District	<u>17,132 ⁽²⁾</u>	100.00 %	<u>17,132</u>
Subtotal, overlapping debt	\$ <u>102,324</u>		38,805
City of Covington direct debt			<u>18,961</u>
Total direct and overlapping			\$ <u>57,766</u>

Source: Kentucky local Debt Report

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Covington. This process recognizes that when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) Kenton County Treasurer's office

(2) Covington Independent School District, Finance Department

(3) The percentage of overlapping debt applicable to the City of Covington is estimated using the percentage of Covington residents in each of the overlapping districts as measured by the 2010 U.S. census.

City of Covington, Kentucky
Principal Property Tax Payers
Current Year and Nine Years Ago

Schedule 10

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Fidelity Properties Inc	\$ 195,571,500	1	9.16 %	\$ 82,387,500	2	6.97 %
CPX-Rivercenter Dev/Corp	95,878,100	2	4.49 %	137,114,800	1	3.33 %
EHP Rivercenter Landmark	33,578,000	3	1.57 %	-	-	- %
Scott Street Land Co. Inc	14,960,900	4	0.70 %	14,960,900	3	- %
CIP II Buckeye Hotel	13,947,100	5	0.65 %	-	-	0.53 %
Latonia Plaza KY LLC	13,389,500	6	0.63 %	8,033,000	8	0.56 %
Atkins & Pearce Manu.	11,460,000	7	0.54 %	10,000,000	6	- %
J & S Latonia Centre Ky LLC	10,482,000	8	0.49 %	13,741,000	4	- %
Anchor Cogdell Covington LLC	7,026,000	9	0.49 %	-	-	- %
CCO LLC	6,812,500	10	0.32 %	-	-	0.41 %
Atria Highland Crossing	-	-	- %	10,500,000	5	0.54 %
J G Covington Hotel, LLC	-	-	- %	9,600,000	7	0.51 %
Shottenstein Trustees	-	-	- %	6,349,000	10	0.40 %
A.C.C.D. Co. Inc	-	-	- %	6,486,000	9	0.34 %
Total	<u>\$ 403,105,600</u>		<u>19.04 %</u>	<u>\$ 299,172,200</u>		<u>13.59 %</u>

City of Covington, Kentucky
Property Tax Levies and Collections
Last Ten Years

Schedule 11

Fiscal Year Ended June 30,	Taxes Levied		Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date				
	for the Fiscal Year		Amount	Percentage of Levy		Amount	Percentage of Levy			
2003	\$	5,011,764	\$	4,824,742	96.27 %	\$	177,563	\$	5,002,305	99.81 %
2004		5,076,892		4,907,183	96.66 %		155,093		5,062,276	99.71 %
2005		5,143,225		4,926,477	95.79 %		191,959		5,118,436	99.52 %
2006		5,483,028		5,293,287	96.54 %		146,162		5,439,449	99.21 %
2007		5,656,394		5,469,125	96.69 %		122,480		5,591,605	98.85 %
2008		5,900,071		5,672,319	96.14 %		143,260		5,815,579	98.57 %
2009		6,222,001		5,970,349	95.96 %		98,348		6,068,697	97.54 %
2010		6,385,509		6,027,733	94.40 %		134,965		6,162,698	96.51 %
2011		6,440,016		6,041,435	93.81 %		-		6,041,435	93.81 %
2012		6,418,511		6,108,328	95.17 %		-		6,108,328	95.17 %

Note: Data was not available in the same format presented with the implementation of GASB Statement 44 prior to 2003.

City of Covington, Kentucky
Ratio of Outstanding Debt by Type
Last Ten Years
(dollars in thousands, except per capita)

Schedule 12

Fiscal Year	General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
2003	\$ -	\$ 36,734	\$ 36,734	3.40 %	\$ 847
2004	4,962	29,344	34,306	3.18 %	791
2005	26,487	19,415	45,902	4.26 %	1,058
2006	27,907	15,231	43,138	4.00 %	995
2007	25,888	16,153	42,041	3.90 %	970
2008	23,790	15,271	39,061	3.62 %	901
2009	21,622	18,782	40,404	3.75 %	932
2010	20,811	17,663	38,474	4.16 %	893
2011	21,289	16,248	37,537	4.73 %	924
2012	18,961	15,081	34,042	4.50 %	834

Note: Details of City's outstanding debt can be found in the notes to the financial statements. Data was not available in the same format presented with the implementation of GASB Statement 44 prior to 2003.

(a) See Schedule 15 for personal income and population data.

City of Covington, Kentucky
Ratio of General Bonded Debt Outstanding
Last Ten Years
(dollars in thousands, except per capita)

Schedule 13

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2003	\$ -	- %	\$ -
2004	4,962	0.29 %	114.41
2005	26,487	1.54 %	643.46
2006	27,907	1.52 %	596.86
2007	25,888	1.32 %	596.91
2008	23,790	1.20 %	548.54
2009	21,622	1.05 %	498.55
2010	20,811	0.99 %	483.06
2011	21,289	1.00 %	523.84
2012	18,961	0.90 %	464.61

Note: The City had no General Obligation Bonds prior to fiscal year 2003.

City of Covington, Kentucky
Legal Debt Margin Information
Last Ten Years
(dollars in thousand)

Schedule 14

										<u>Debt Margin Calculation for Fiscal Year 2012</u>	
										Assessed value	\$ 2,111,459
										Debt limit (10% of assessed value)	\$ 211,146
										Debt applicable to limit:	
										General obligation	\$ 18,961
										Total net debt applicable	\$ <u>18,961</u>
										Legal debt margin	\$ <u><u>192,185</u></u>
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Debt limit	\$ 167,618	\$ 169,796	\$ 172,014	\$ 183,379	\$ 196,624	\$ 198,778	\$ 205,471	\$ 207,746	\$ 213,461	\$ 211,146	
Total net debt applicable to limit	<u>-</u>	<u>4,962</u>	<u>26,487</u>	<u>27,907</u>	<u>25,888</u>	<u>23,790</u>	<u>21,622</u>	<u>20,811</u>	<u>21,289</u>	<u>18,961</u>	
Legal debt margin	\$ <u><u>167,618</u></u>	\$ <u><u>164,834</u></u>	\$ <u><u>145,527</u></u>	\$ <u><u>155,472</u></u>	\$ <u><u>170,736</u></u>	\$ <u><u>174,988</u></u>	\$ <u><u>183,849</u></u>	\$ <u><u>186,935</u></u>	\$ <u><u>192,172</u></u>	\$ <u><u>192,185</u></u>	
Total net debt applicable to the limit as a percentage of debt limit	<u>-</u> %	<u>2.92</u> %	<u>15.40</u> %	<u>15.22</u> %	<u>13.17</u> %	<u>11.97</u> %	<u>10.52</u> %	<u>10.02</u> %	<u>9.97</u> %	<u>8.98</u> %	

Note: The City had no total debt applicable to limit prior to fiscal year 2003.

City of Covington, Kentucky
Demographic and Economic Statistics
Last Ten Years

Schedule 15

Fiscal Year	Population (a)	Personal Income (a) <i>(thousands of dollars)</i>	Per Capita Personal Income (a)	Median Age (a)	School Enrollment (b)	Unemployment Rate (c)
2003	43,370	\$ 1,077,787	\$ 24,851	33.1	4,190	6.0 %
2004	43,370	1,077,787	24,851	33.1	4,034	5.7 %
2005	43,370	1,077,787	24,851	33.1	3,889	5.6 %
2006	43,370	1,077,787	24,851	33.1	3,975	5.2 %
2007	43,370	1,077,787	24,851	33.1	3,937	4.5 %
2008	43,370	1,077,787	24,581	33.1	3,958	5.6 %
2009	43,235	928,212	21,469	35.9	4,002	10.4 %
2010	43,082	924,927	21,469	35.9	4,066	10.2 %
2011	40,640	813,003	20,005	34.6	3,914	9.7 %
2012	40,811	834,667	20,492	35.7	3,572	8.9 %

Sources:

- (a) U. S. Department of the Census (2010 Census) & (1996 Census)
2009 Data U. S. Census Bureau 2006-2008 American Community Survey 3-Year Estimate
- (b) Kentucky Department of Education
- (c) Kentucky Cabinet for Workforce Development

City of Covington, Kentucky

Principal Employers

Current Year

Schedule 16

Employer	2012		Percentage of Total City Employment
	Employees	Rank	
Internal Revenue Service	4,500	1	16.79 %
Fidelity Investments	4,100	2	15.30 %
Covington Board of Education	925	3	3.45 %
St. Elizabeth Hospital	800	4	2.99 %
State of Kentucky	360	5	1.34 %
Omnicare	325	6	1.21 %
Club Chef	320	7	1.19 %
Rosedale Manor	310	8	1.16 %
No. KY MH-MR Board	280	9	1.04 %
Atkins & Pearce Mfg.	<u>265</u>	10	<u>0.99 %</u>
Total	<u>12,185</u>		<u>45.46 %</u>

Note: Data is unavailable for nine years ago.

Source: City of Covington Finance Department

City of Covington, Kentucky
Full-time Equivalent City Government Employees by Function/Program
Last Ten Years

Schedule 17

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Management services	17	18	17	17	16	16	16	16	17	16
Finance	15	16	15	15	14	14	14	13	13	11
Economic development	6	7	5	5	6	7	7	7	7	7
Code enforcement	9	10	10	10	9	11	11	12	12	11
Housing	20	18	16	16	16	16	16	16	15	12
Police										
Officers	113	116	116	116	116	116	116	116	112	110
Civilians	31	32	34	34	33	31	31	31	28	24
Fire										
Firefighters and officers	117	117	118	118	118	118	118	118	118	118
Civilians	1	1	1	1	1	1	1	1	1	1
Other										
Public improvements	38	38	38	36	35	35	35	51	47	47
Engineering	3	3	2	2	3	4	4	4	4	4
Parks and recreation	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>18</u>	<u>20</u>	<u>20</u>	<u>2</u>	<u>2</u>	<u>2</u>
Totals	<u>390</u>	<u>396</u>	<u>392</u>	<u>390</u>	<u>385</u>	<u>389</u>	<u>389</u>	<u>387</u>	<u>376</u>	<u>363</u>

Source: City of Covington Finance Department

City of Covington, Kentucky
Operating Indicators by Function/Program
Last Ten Years

Schedule 18

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Physical arrests	5,167	5,017	5,342	5,819	5,762	5,321	5,248	5,899	5,763	5,420
Parking violations	13,775	13,016	14,721	15,622	14,863	14,230	15,873	13,926	14,520	15,891
Traffic violations	5,581	5,714	5,894	5,721	5,778	5,856	5,116	5,796	5,149	4,991
Fire										
Fire responses	4,209	3,951	4,167	3,985	3,752	3,658	2,818	2,657	2,731	2,716
Ambulance runs	7,931	7,927	8,602	9,742	100,246	11,549	10,542	8,595	9,112	9,523
Inspections	2,618	2,696	2,521	2,576	2,540	2,440	2,212	1,966	2,058	1,853

Source: City of Covington Police and Fire Record Management System

City of Covington, Kentucky
Capital Assets Statistics by Function/Program
Last Ten Years

Schedule 19

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Zone offices	5	5	4	4	4	4	4	4	4	4
Patrol units	83	83	83	83	83	83	83	83	83	83
Fire stations	5	5	5	5	5	5	5	5	5	5
Other public works										
Streets (miles)	120	126	126	130	120	120	120	120	120	120
Streetlights	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246
Parks and recreation										
Acreage	850	850	850	850	850	850	850	850	850	850
Playgrounds	28	28	28	28	28	28	28	28	28	28
Baseball/softball diamonds	10	10	10	10	10	10	10	10	10	10
Soccer/football fields	5	5	5	5	5	5	5	5	5	5
Swimming pools	4	4	4	4	4	4	4	4	4	4

Source: City of Covington Engineering Department

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SINGLE AUDIT SECTION

City of Covington, Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor / Pass- Through Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Fund Balance at June 30, 2011	Revenues	Expenditures	Fund Balance at June 30, 2012
U.S. Department of Housing and Urban Development (HUD)						
Section 8 Housing Choice Vouchers	14.871	KY-133-VO-0054-0F04	\$ 560,875 628,510	\$ 6,014,670 (F) 821,766 (NF)	\$ 5,783,300 (F) 797,048 (NF)	\$ 792,245 653,228
Community Development Block Grants/ Entitlement Grants	14.218 (M)	B-10-MC-21-0001	- -	1,324,804 (F) 731,847 (NF)	1,324,804 (F) 731,847 (NF)	- -
Pass Through From Kentucky Department of Local Government Community Development Block Grants/ Entitlement Grants (NSP1)	14.218 (M)	N09-017	-	1,992,801 (F)	1,992,801 (F)	-
Homeless Prevention and Rapid Re-Housing	14.257	S-09-MY-21-0002	-	267,290 (F)	267,290 (F)	-
Home Investment Partnership Program (HOME)	14.239 (M)	M-10-MC-21-0200	-	705,951 (F)	705,951 (F)	-
Community Challenge Planning Grants	14.704	CC-PKY-0009-10	-	177,885 (F)	177,885 (F)	-
HUD EDI SPC	14.251	B-10-SP-KY-0083	-	178 (F)	178 (F)	-
U.S. Department of Transportation						
Pass Through From Kentucky Transportation Cabinet State and Community Highway Safety	20.600	2008-DJ-BX-463	-	55,622 (F)	55,622 (F)	-
U.S. Environmental Protection Agency						
Brownfield Assessments and Cleanup	66.818		-	136,700 (F)	136,700 (F)	-
Total Assistance			\$ 1,318,568	\$ 12,296,005	\$ 12,039,785	\$ 1,574,788
Total Federal Financial Assistance			\$ 560,875	\$ 10,675,901 (F)	\$ 10,444,531 (F)	\$ 792,245
Total Non-Federal Financial Assistance			757,693	1,620,104 (NF)	1,595,254 (NF)	782,543
Total Assistance			\$ 1,318,568	\$ 12,296,005	\$ 12,039,785	\$ 1,574,788

F - Federal Funds; NF - Non-Federal Funds; M - Major Program

City of Covington, Kentucky
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes federal grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2 - Summary by Federal Agency

Federal expenditures summarized by federal grantor/agency are as follows:

Federal Grantor/Agency	\$ Amount
Department of Housing and Urban Development	\$ 10,252,209
Department of Transportation	55,622
Department of Environmental Protection Agency (EPA)	<u>136,700</u>
Total	<u>\$ 10,444,531</u>

Note 3 - Community Development Block Grants/Entitlement Grants

The total federal awards expended for CFDA 14.218, Community Development Block Grants/Entitlement Grants, including amounts directly received from the Department of Housing and Urban Development and other amounts passed through and received from the Kentucky Department of Local Government, including program dollars expended under NSP1, was \$3,317,605 for the year ended June 30, 2012.

Note 4 - Brownfield Assessments and Cleanup

The City expended federal awards for CFDA 66.818, Brownfield Assessments and Cleanup as follows:

Grant Name	\$ Amount
EPA Grant Assessment	\$ 7,597
EPA Grant Donaldson Cleanup	95,057
EPA Stewart Ironworks Cleanup	<u>34,046</u>
Total	<u>\$ 136,700</u>

City of Covington, Kentucky
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 5 - Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

CFDA #	Program Name	Amounts Provided to Subrecipients
CFDA #14.318	Community Development Block Grants	\$ 1,912,448
CFDA #14.239	Home Investment Partnership Program (HOME)	\$ 161,644

**REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2012. That report stated that the City's net asset balances as of June 30, 2011, have been adjusted to correct errors in classification. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Devou Properties, Inc. as described in our report on the City of Covington, Kentucky's financial statements. The financial statements of Devou Properties, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Covington, Kentucky, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weaknesses.

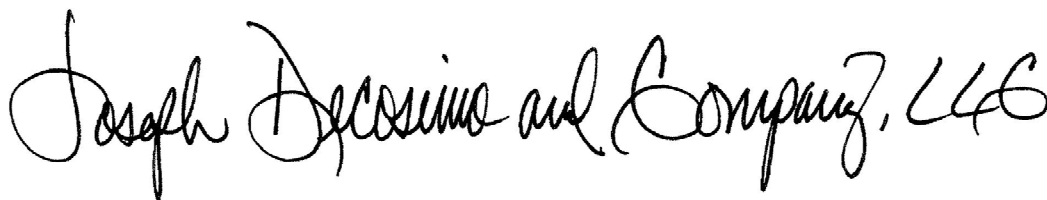
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, others within the organization, the Mayor and Board of Commissioners and federal awarding agencies and passthrough entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph Decosimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
December 31, 2012

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

Compliance

We have audited the compliance of the City of Covington, Kentucky (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Covington, Kentucky, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

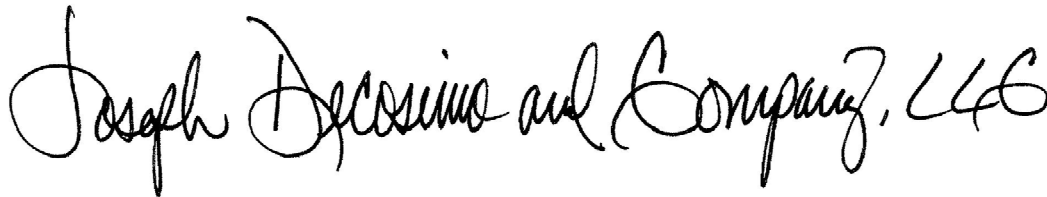
Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City's compliance but not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Joseph Decosimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
December 31, 2012

City of Covington, Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? ☒ Yes ☐ No
- Significant deficiency identified that is not considered to be a material weakness? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number

14.218

Name of Federal Program or Cluster

Community Development Block Grants/
Entitlement Grants

14.239

Home Investment Partnership Program (HOME)

Dollar threshold used to distinguish between type A and type B programs \$313,336

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

City of Covington, Kentucky
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

II. FINANCIAL STATEMENT FINDINGS

Finding 2012-01 - Material Weakness - Internal Control - Classification of Net Asset Balances

Criteria: U.S. GAAP requires that net assets be classified in the following three components and be properly presented and disclosed in the financial statements:

- Invested in capital assets, net of related debt
- Restricted
- Unrestricted

Condition: Although in aggregate, net assets as of June 30, 2011 were correct, the various components of net assets required adjustment for proper presentation by net asset classification.

Cause: The City had failed to properly account for various restricted revenues. For fund level financial statements these amounts were identified as deferred revenues. At the entity-wide level financial statements, these deferred revenues were recognized, erroneously, as unrestricted revenues. These resources related to various HUD Programs.

Effect: The following reclassification of net assets as of June 30, 2011, was required:

Net Assets	June 30, 2011 (As Originally Reported)	Effect of Adjustment	June 30, 2011 (As Restated)
Invested in capital assets, net of related debt	\$ 36,088,303	\$ -	\$ 36,088,303
Restricted for capital projects	1,577,223	-	1,577,223
Restricted for HUD projects	1,318,568	14,519,093	15,837,661
Restricted for Police Incentive	3,321	-	3,321
Restricted for grant programs	24,040	-	24,040
Unrestricted	<u>8,933,230</u>	<u>(14,519,093)</u>	<u>(5,585,863)</u>
	<u>\$ 47,944,685</u>	<u>\$ -</u>	<u>\$ 47,944,685</u>

Recommendation: The City needs to post the above entry and develop a tracking system to insure that restrictions are properly presented and disclosed.

View of Responsible Officials and Planned Corrective Action Plan: The City concurs with the finding, comments and related recommendation.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported

City of Covington, Kentucky
Schedule of Prior Year Audit Findings
Year Ended June 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-1 - HOME Investment Partnership Program - CFDA 14.239	Internal Control - Significant Deficiency: Missing loan documentation on two of the recorded loan files.	Yes	
2011-2 - HOME Investment Partnership Program - CFDA 14.239	Internal Control - Significant Deficiency: Missing property inspection documentation on two of the recorded loan files.	Yes	